STATE OF TENNESSEE
HEALTH SERVICES AND DEVELOPMENT AGENCY
500 Deaderick Street
Suite 850
Nashville, TN 37243
615/741-2364

Date: November 26, 2012

To: HSDA Members

From: Melanie M. Hill, Executive Director

Re: CONSENT CALENDAR JUSTIFICATION
CN1210-052 – Memphis Long Term Care Specialty Hospital

As permitted by Statute and further explained by Agency Rule on the last page of this memo, I have placed this application on the consent calendar based upon my determination that the application appears to meet the established criteria for granting a certificate of need. Need, economic feasibility, and contribution to the orderly development of health care are detailed below. If Agency Members determine that the criteria have been met, a member may move to approve the application by adopting the criteria set forth in this justification or develop another motion for approval that addresses each of the three criteria required for approval of a certificate of need.

At the time the application entered the review cycle on November 1, 2012, it was not opposed. If the application is opposed prior to it being heard, it will move to the bottom of the regular December agenda and the applicant will make a full presentation.

Summary—

Memphis Long Term Care Specialty Hospital, LLC holds an approved but unimplemented certificate of need for a twenty-four bed long-term care hospital in Memphis, TN. This type hospital is commonly referred to as long-term acute care hospital (LTACH) and is certified by Medicare as a long-term hospital (LTCH).

These facilities are licensed by the Tennessee Department of Health (TDH) as a hospital with the classification of a chronic disease hospital as defined by Hospital Rule 1200-08-01.

> *Chronic Disease Hospital. To be licensed as a chronic disease hospital, the institution*

shall be devoted exclusively to the diagnosis, treatment or care of persons needing medical, surgical or rehabilitative care for chronic or long-term illness, injury, or infirmity. The diagnosis, treatment or care shall be administered by or performed under the direction of persons currently licensed to practice the healing arts in the State of Tennessee. A chronic disease hospital shall meet the requirements for a general hospital except that obstetrical facilities are not required and, if the hospital provides no surgical services, an emergency department is not required.

Shelby County Health Care Corporation d/b/a the Regional Medical Center of Memphis (The MED) received HSDA approval in September 2012 for a change of control of the unimplemented CON. Since a certificate of need is site specific, an application was filed on October 15, 2012 to relocate the facility to the campus of The MED.

A historical background of the project, which was first approved in 2006, is provided on pages 3 and 4 of the staff summary.

Executive Director Justification -

Need- The need to relocate the approved but unimplemented CON to the new site is justified based upon the Agency's approval for change of control (change of ownership of the facility). The facility will be located on the campus of The MED and will be operated under the "hospital within a hospital" concept.

Economic Feasibility-The project will be funded though the cash reserves of The MED. The total project cost for the CON reflects the fair market value of the land, building, and equipment and not the actual cost to implement the project. The proposed facility will be able to contract or purchase ancillary services from the host hospital (The MED) which will decrease operational costs.

Contribution to the Orderly Development of Health Care- The project does contribute to the orderly development of health care since the HSDA previously determined it was needed in Shelby County, first in 2006 and then again in 2009. Long-term acutely ill patients can be relocated from an acute care bed to a more appropriate level of care that will be reimbursed accordingly. The applicant will participate in the same TennCare MCOs as the MED and will assist The MED in meeting its commitment to the underserved population in Shelby County.

Based on these reasons, I recommend that the Agency approve certificate of need application CN1210-052.

Statutory Citation -TCA 68-11-1608. Review of applications -- Report

(d) The executive director may establish a date of less than sixty (60) days for reports on applications that are to be considered for a consent or emergency calendar established in accordance with agency rule. Any such rule shall provide that, in order to qualify for the consent calendar, an application must not be opposed by any person with legal standing to oppose and the application must appear to meet the established criteria for the issuance of a certificate of need. If opposition is stated in writing prior to the application being formally considered by the agency, it shall be taken off the consent calendar and placed on the next regular agenda, unless waived by the parties.

Rules of the Health Services and Development Agency - 0720-10-.05 CONSENT CALENDAR

(1) Each monthly meeting's agenda will be available for both a consent calendar and a regular calendar.

(2) In order to be placed on the consent calendar, the application must not be opposed by anyone having legal standing to oppose the application, and the executive director must determine that the application appears to meet the established criteria for granting a certificate of need. Public notice of all applications intended to be placed on the consent calendar will be given.

(3) As to all applications which are placed on the consent calendar, the reviewing agency shall file its official report with The Agency within thirty (30) days of the beginning of the applicable review cycle.

(4) If opposition by anyone having legal standing to oppose the application is stated in writing prior to the application being formally considered by The Agency, it will be taken off the consent calendar and placed on the next regular agenda. Any member of The Agency may state opposition to the application being heard on the consent calendar, and if reasonable grounds for such opposition are given, the application will be removed from the consent calendar and placed on the next regular agenda.

(a) For purposes of this rule, the "next regular agenda" means the next regular calendar to be considered at the same monthly meeting.

(5) Any application which remains on the consent calendar will be individually considered and voted upon by The Agency.

HEALTH SERVICES AND DEVELOPMENT AGENCY MEETING
DECEMBER 12, 2012
APPLICATION SUMMARY

NAME OF PROJECT:	Memphis Long Term Care Specialty Hospital
PROJECT NUMBER:	CN1210-052
ADDRESS:	877 Jefferson Avenue Memphis (Shelby County), Tennessee 38103
LEGAL OWNER:	Memphis Long Term Care Specialty Hospital, LLC 877 Jefferson Avenue Memphis (Shelby County), Tennessee 38103
OPERATING ENTITY:	NA
CONTACT PERSON:	E. Graham Baker, Jr. (615) 383-3332
DATE FILED:	October 15, 2012
PROJECT COST:	$8,208,743.21
FINANCING:	Cash Reserves
REASON FOR FILING:	Relocation of an approved but unimplemented Certificate of Need (CN0908-046AE) for a 24-bed long term acute care hospital.

DESCRIPTION:

Memphis Long Term Care Specialty Hospital is requesting Certificate of Need (CON) approval and placement on the CONSENT Calendar for relocation of a previously approved but unimplemented CON (CN0908-046AE) for a twenty-four (24) bed long-term care acute care hospital (LTACH) from the intersection of Kirby Parkway and Kirby Gate Boulevard, Memphis (Shelby County) to an exisiting building on the campus of the Regional Medical Center at Memphis (The MED), 877 Jefferson Avenue, Memphis (Shelby County). The LTACH will be placed on the 4th floor of the Turner Tower and will be a separately licensed hospital from The MED.

SERVICE SPECIFIC CRITERIA AND STANDARD REVIEW:

CHANGE OF SITE

(a) Need- The applicant should show the proposed new site will serve the health care needs in the area to be served at least as well as the original site. The applicant should show that there is some significant legal, financial, or practical need to change the proposed new site.

The applicant states that the new site will be closer to referring facilities which will improve patient care and that some ancillary and support services may be contracted from the closer referring hospitals to hold down capital and operating costs.

It appears that the application will meet this criterion.

(b) Economic Factors-The applicant should show the proposed new site would be at least as economically beneficial to the population to be served as the original site.

The applicant notes that CN0908-046AE included new construction resulting in a total project cost of $7,617,100. Even though the total project cost of the proposed project is $8,208,743.21, the large majority of the cost is the fair market value of the land, building, and equipment that already exists on The MED's campus. Actual cost to implement the project is $1,188,165.

It appears that the application will meet this criterion.

(c) Contribution to the Orderly Development of Health Facilities and/or services.-The applicant should address any potential delays that would be caused by the proposed change of site, and show that any delays are outweighed by the benefit that will be gained from the change of site by the population to be served.

There has been no work done on the existing site. The proposed project will be in an existing building that will be built out under CN1208-037A, which was approved in November 2012. No significant delays are expected. The LTACH is expected to begin operation in April 2015.

It appears that the application will meet this criterion.

SUMMARY:

The history of Memphis Long Term Care Specialty Hospital is as follows:

March 2006

- AmeriCare Health Properties, LLC initially filed a CON application (CN0603-019) for the establishment of Memphis Long Term Care Specialty Hospital, a twenty-four (24) bed long term acute care hospital in an exisiting 237 bed nursing home (Americare Health Center of Memphis, LLC), 3391 Old Getwell Road, Memphis (Shelby County).

July 2006

- CN0603-019 was approved with an expiration date of September 1, 2009.

March 2007

- A request for corporate restructuring was granted for CN0603-019A

March 2008

- A four month extension of the expiration date was approved from September 1, 2009 to January 1, 2010 for CN0603-019A.

November 2009

- The Agency approved CN0908-046A, the relocation of Memphis Long Term Care Specialty Hospital from 3391 Getwell Road, Memphis (Shelby County) to the intersection of Kirby Parkway and Kirby Gate Boulevard, Memphis (Shelby County) with an expiration date of January 1, 2013. In addition the applicant requested and received approval for a twelve month extension for CN0603-019A from January 1, 2010 to January 1, 2011. The applicant believed that the LTACH was close to completion on the Getwell Road campus and planned to operate the LTACH at this site until the facility at the new location was completed and ready to be occupied.

September 2012

- Two month extension approved for CN0908-046A from January 1, 2013 to March 1, 2013, and a change of control was granted for Shelby County Health Care Corporation d/b/a the Regional Medical Center at Memphis ("The MED") to acquire all of the issued and outstanding equity in Memphis Long Term Care Specialty Hospital. The purpose of the two

month extension request was to allow time for The MED to file a CON to relocate Memphis Long Term Care Specialty Hospital.

October 2012

- Memphis Long Term Care Specialty Hospital, LLC, which is wholly owned by The MED, filed this proposed project to relocate Memphis Long Term Care Specialty Hospital from the intersection of Kirby Parkway and Kirby Gate Road to the Turner Tower on The MED's campus.

The MED is a 631 bed acute care hospital which is the area's Level I Trauma Center and has the region's only inpatient burn unit. The proposed location of the LTACH is the 4th floor of the Turner Tower, a 20 year old building which is the focus of a recently approved application, CN1208-037A, which included the building out of the shelled 4th floor of the Turner Tower.

The LTACH will be the sole occupant of the 21,340 gross square foot 4th Floor in the Turner Tower. The LTACH will be separately licensed and legally separate from The MED. The LTACH will be operated as a "hospital within a hospital", leasing space from The MED, the "host" hospital. The LTACH will include 24 private patient rooms, 5 nurses' stations, family waiting room, reception area, separated soiled/clean utilities, office space, and staff lounge areas. Due to the medical conditions of the patients there will not be a central dining area.

The following is an excerpt from the CN1210-052, the proposed project, where the applicant describes the type of patient for which an LTACH provides care:

Long term acute care hospitals (LTACHs) care for catastrophically ill patients who have been stabilized in more critical-care settings but are too ill for discharge to an acute rehabilitation, skilled nursing, or home care setting. These medically fragile or unstable patients typically require extended acute care for periods of weeks. Their average length of stay ("ALOS") is 25 days or greater, and meeting their needs can strain hospitals' resources and budgets, but often there is no alternative facility that can provide the care these patients require.

Their conditions include chronic respiratory disorders and other pulmonary conditions; cardiac, neurological, and renal conditions; infections and severe wounds. Many are medically complex, with a combination of issues that often require cardiac monitoring, long term antibiotic and nutritional therapies, pain control, and continued life support. LTACH programs of care are designed for patients with serious conditions such as multiple nervous system disorders, cardiovascular disorders, extended antibiotic therapy, patients with tracheotomies, ventilators, dialysis, TPN, burn care, oncological conditions, and numerous other post-surgical and complex medical

conditions. These patients require more nursing hours per patient day (5-8 hours) than non-acute facilities can provide; and they cannot withstand the rehabilitation regimens of a hospital rehabilitation unit. LTACHs are specifically designed to meet the needs of such long-stay, critically ill patients.

The applicant discusses the following advantages provided by the LTACH project:

1. LTACHS Reduce The Expense of Long Term Acute Care for All Payors- LTACHs offer an extended stay in an acute care environment which does not carry expensive diagnostic and support space overhead typically found in a general acute care hospital.
2. LTACHs Maximize Medicare Reimbursement for Tennessee and Reduce Cost-Shifting-Major un-reimbursed costs for extended care Medicare patients in general acute care hospitals shifts these costs to other payors. CMS is willing to provide reimbursement for services to these patients in an appropriate facility such as an LTACH
3. The Applicant's LTACH will be an Accessible Provider for a Wide Range of Payors- The applicant anticipates a payor mix of 50% Medicare and 50% Medicaid.
4. Due to Owner's Relationship with The MED, Payor Contracts should be Easily Implemented
5. The Applicant will Serve patients who are Currently Underserved
6. Project Costs for this Application are Comparable to other Hospital Projects
7. The proposed project will place the LTACH closer to referring tertiary hospitals including being on The MED's campus
8. The cost of building out the 4th floor of the Turner Tower has already been approved in a recently approved CON application, CN1208-037A.
9. The space in the Turner Tower is already available to the proposed project so that the LTACH can come on line much more quickly and begin serving patients who need services.

In the supplemental response the applicant discussed two issues that had to do with CMS rules:

1. The applicant acknowledges CMS's "50% rule" which apples to the percentage of patients being transferred from the "host hospital", in this case The MED, to the "hospital within a hospital" in this case Memphis Long Term Care Specialty Hospital. The applicant notes that the patients referred from the host hospital in excess of 50% just means that LTACH

reimbursement will be less for those patients but still greater than the reimbursement for the same patient in a short stay hospital which in this case would be The MED

2. CMS established a 3 year moratorium on the designation of new LTACHs, LTACH satellites, or increases in beds in exisiting LTACHs which began on December 29, 2007 scheduled to end on December 28, 2010 and then extended two more years until December 28, 2012. This moratorium did not impact the proposed project since this 24-bed facility initially received CON approval in 2006 prior to the implementation of the moratorium.

The MED which owns Memphis Long Term Care Specialty Hospital and is the "host" hospital for the LTACH is a 631 licensed bed acute care hospital. The Joint Annual Report for 2011 indicates The MED staffed 325 beds of its licensed 631 beds, for 39.4%% licensed bed occupancy and 76.5% staffed bed occupancy.

The following provides the Department of Health's definition of the two bed categories pertaining to occupancy information provided in the Joint Annual Reports:

Licensed Beds - The maximum number of beds authorized by the appropriate state licensing (certifying) agency or regulated by a federal agency. This figure is broken down into adult and pediatric beds and licensed bassinets (neonatal intensive or intermediate care bassinets).

Staffed Beds - The total number of adult and pediatric beds set up, staffed and in use at the end of the reporting period. This number should be less than or equal to the number of licensed beds.

According to the demographic statistics from the Department of Health, the applicant's declared service area of Shelby County's total population is projected to grow by 2.8% between 2012 and 2016 from 949,665 to 976,726. The State of Tennessee is projected to increase 3.4% over the same time period. Persons Age 65+ are projected over the same period to increase 13.9%, from 100,017 in 2012 to 113,906 in 2016. This compares to 12.4% for Tennessee overall. Persons Age 65+ account for 10.5% of the total population in the service area. This compares to 13.8% for Tennessee. TennCare enrollees account for 24.1% of the population in the service area. This compares to 19% for the State of Tennessee.

The following tables will illustrate the historical utilization trends of existing LTACHs in Shelby County:

Shelby County LTACH Utilization Trends, 2009-2011

LTACH	2012 Lic.'d Beds	2009 Patient Days	2010 Patient Days	2011 Patient Days	'09- '11 % Change	2009 % Occ.	2010 % Occ.	2011 % Occ.
Baptist	30	9,331	8,015	8,004	-14.2%	85.2%	73.2%	73.1%
Methodist	36	11,757	11,379	11,337	-3.6%	89.5%	86.6%	86.3%
Select Specialty	39	13,473	12,680	13,469	0.0%	94.6%	89.1%	94.6%
TOTAL	105	34,561	32,074	32,810	-5.1%	90.2%	83.7%	85.6%

Source: Hospital Joint Annual Reports, 209-2011,

The table above illustrates that LTACH utilization in Shelby County has declined over 5% between 2009 and 2011. The range of change was a decline of 14.2% at Baptist Restorative Care to no change at Select Specialty. Overall Shelby County LTACH occupancy in 2011 ranged between 73.1% at Baptist Restorative Care to 94.6% at Select Specialty. There are currently 105 LTACH licensed beds operating in Shelby County plus the applicant's approved but unimplemented 24 beds.

In a supplemental request for information the applicant was asked about the alternative of transferring patients to exisiting LTACHs in the service area. The applicant noted bed availability at other service area LTACHs but indicated that MED physicians and patients want to stay at The MED.

The applicant's projects that the proposed 24 bed LTACH will operate at 95% occupancy in each of the first two years of operation. To support these projections the applicant points to a study performed by a consultant that indicated the applicant could support a 43 bed LTAC operating at 85% occupancy.

Per the Projected Data Chart, gross operating revenue for the 24 bed LTACH is $28,143,153 *($3,381.78 per patient per day)* in the first year of the project), increasing to $28,874,875 *($3,469.70 per patient per day)* in the second year of the project. In the initial year of the project, the applicant expects to realize favorable net operating income of $874,109, improving to $893,564 during the second year of operations. The applicant's gross operating margin is projected to be 3.1% in both Years 1 and 2.

The applicant projects a patient payor mix based on net revenue of 50% Medicare and 50% Medicaid. The applicant expects to contract with the TennCare MCOs with which The MED currently contracts: UnitedHealthcare Community Plan, BlueCare, and TennCare Select.

There is no Historical Data Chart for the 24 bed LTACH since it is an approved but unimplemented project.

The proposed staffing pattern for the 24 bed LTACH is displayed in the table below:

Position	FTEs
Administrator	1.0
Receptionist	1.0
Director of Nursing	1.0
RNs	33.0
CNAs	22.0
Nurse Practitioner	2.0
TOTAL	**60.0**

The total project cost is $8,208,743.21, the largest portion of which is the fair market value of the exisiting property, $5,772,000 (70.3% of total project cost), followed by Equipment lease and purchase at $1,230,150 (19.2% of the total project cost). The remaining costs are comprised of Construction ($438,165); Purchase of LTACH ($350,000); Legal, Administrative and Consultant fees ($50,000), and CON filing fees ($18,428.21).

The project will be financed by cash reserves of the applicant's owner, The MED. A letter dated October 15, 2012 from the Senior Executive Vice President & CFO of The MED indicates that there are cash reserves available and dedicated to the project.

The audited financial statements of Shelby County Health Care Corporation dated June 30, 2011 indicate the availability of $46,817,462 in cash and cash equivalents. A review of these financial statements revealed a favorable current ratio of 4.66 to 1. Current ratio is a measure of liquidity and is the ratio of current assets to current liabilities, which measures the ability of an entity to cover its current liabilities with its existing current assets. A ratio of 4.66:1 would mean that the applicant has over four times the current assets needed to cover its current liabilities. A ratio of 1:1 would be required to have the minimum amount of assets needed to cover current liabilities.

The applicant has submitted the required corporate and property documentation, a graduate medical education agreement, and federal LTACH regulations. Staff will have a copy of these documents available for member reference at the Agency meeting. Copies are also available for review at the Health Services and Development Agency office.

Should the Agency vote to approve this project, the CON would expire in three years.

CERTIFICATE OF NEED INFORMATION FOR THE APPLICANT

There are no other Letters of Intent, pending applications, or denied applications for this applicant.

Outstanding Certificates of Need

Shelby County Health Care Corporation d/b/a Regional Medical Center at Memphis, CN1208-037A, has an outstanding Certificate of Need which will expire on January 1, 2016. The CON was approved at the November 14, 2012 Agency meeting for: a) The conversion of ten (10) medical/surgical beds to rehabilitation beds; b) the relocation of its exisiting twenty (20) bed rehabilitation unit, after which a thirty (30) bed rehabilitation unit will operate in the Turner Tower; c) the addition of three (3) operating rooms to be dedicated to outpatient surgery operated in the Turner Tower; d) the general renovation of the Turner Tower, including the build out of unused space for a twenty-four (24) bed unit ; e) the relocation of an existing ten (10) bed medical/surgical unit to the Turner Tower, which will result in six (6) staffed medical/surgical beds.. The estimated project cost is **$28,400,000.00.** *Project Status: This project was recently approved.*

Memphis Long Term Care Specialty Hospital, CN0908-046AE, has an outstanding Certificate of Need that will expire on March 1, 2013. The CON was approved at the November 2009 Agency meeting for the relocation of an approved but unimplemented CON (CN0603-019A) from 3391 Getwell Road, Memphis (Shelby County) to the intersection of Kirby Parkway and Kirby Gate Boulevard, Memphis (Shelby County). Estimated project cost is **$750,000.00.** *Project Status: The Agency approved change of control at its September 2012 meeting so that The MED could acquire all of the issued and outstanding equity in Memphis Long Term Care Specialty Hospital, LLC. If CN1210-052 is approved, CN0908-046AE will be surrendered.*

CERTIFICATE OF NEED INFORMATION FOR OTHER SERVICE AREA FACILITIES:

There are no Letters of Intent, denied or pending applications or outstanding Certificates of Need for other health care organizations in the service area proposing this type of service.

PLEASE REFER TO THE REPORT BY THE DEPARTMENT OF HEALTH, DIVISION OF HEALTH STATISTICS, FOR A DETAILED ANALYSIS OF THE STATUTORY CRITERIA OF NEED, ECONOMIC FEASIBILITY, AND CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTH CARE IN THE AREA FOR THIS PROJECT. THAT REPORT IS ATTACHED TO THIS SUMMARY IMMEDIATELY FOLLOWING THE COLOR DIVIDER PAGE.

MAF
11/26/2012

LETTER OF INTENT

2012 OCT 10 AM 10: 59

LETTER OF INTENT
TENNESSEE HEALTH SERVICES AND DEVELOPMENT AGENCY

The Publication of Intent is to be published in the *Commercial Appeal* which is a newspaper of general
(Name of Newspaper)

circulation in Shelby and surrounding Counties, Tennessee on or before October 10, 2012 for one day.
(County) (Month / day) (Year)

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This is to provide official notice to the Health Services and Development Agency and all interested parties, in accordance with T.C.A. §68-11-1601, et seq., and the Rules of the Health Services and Development Agency, that Memphis Long Term Care Specialty Hospital, 877 Jefferson Avenue, Memphis (Shelby County), Tennessee 38103 ("Applicant"), owned and managed by Memphis Long Term Care Specialty Hospital, LLC, same address, ("Owner"), which is in turn owned by Shelby County Health Care Corporation, d/b/a, The Regional Medical Center at Memphis, 877 Jefferson Avenue, Memphis (Shelby County), Tennessee 38103 ("The "Med"), is applying for a Certificate of Need for the relocation of CN0908-046AE, a twenty-four (24) bed long term acute care hospital ("LTACH"), from its approved site at the intersection of Kirby Parkway and Kirby Gate Boulevard to the main campus of The Med. This LTACH will be located on the 4th floor of the Turner Tower, and will be a separately-licensed hospital. There are no new licensed beds (as this is a relocation of existing and approved beds) and no major medical equipment is involved with this project. The number of total licensed beds for the Applicant and The Med will not change. No other health services will be initiated or discontinued. It is proposed that Medicare, TennCare (Medicaid), commercially insured, and private-pay patients will be served by the Applicant, which will be licensed by the Tennessee Department of Health. The estimated project cost is anticipated to be approximately $8,208,743.21, including filing fee.

The anticipated date of filing the application is: October 15, 2012.

The contact person for this project is E. Graham Baker, Jr., (Contact Name) Attorney (Title)

who may be reached at: his office located at (Company Name) 2021 Richard Jones Road, Suite 350 (Address)

Nashville (City) TN (State) 37215 (Zip Code) 615 / 370-3380 (Area Code / Phone Number)

E. Graham Baker, Jr. (Signature) October 10, 2012 (Date) graham@grahambaker.net (E-mail Address)

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The Letter of Intent must be filed in triplicate and received between the first and the tenth day of the month. If the last day for filing is a Saturday, Sunday or State Holiday, filing must occur on the preceding business day. File this form at the following address:

Health Services and Development Agency
Andrew Jackson Building
500 Deaderick Street, Suite 850
Nashville, Tennessee 37243

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The published Letter of Intent must contain the following statement pursuant to T.C.A. § 68-11-1607(c)(1). (A) Any health care institution wishing to oppose a Certificate of Need application must file a written notice with the Health Services and Development Agency no later than fifteen (15) days before the regularly scheduled Health Services and Development Agency meeting at which the application is originally scheduled; and (B) Any other person wishing to oppose the application must file written objection with the Health Services and Development Agency at or prior to the consideration of the application by the Agency.

ORIGINAL APPLICATION

2012 OCT 15 PM 2 56

CERTIFICATE OF NEED APPLICATION

For The

RELOCATION OF 24 LONG TERM ACUTE CARE BEDS

by

Memphis Long Term Care Specialty Hospital
877 Jefferson Avenue
Memphis (Shelby County), Tennessee 38103

STATE OF TENNESSEE
HEALTH SERVICES AND DEVELOPMENT AGENCY
500 Deaderick Street
Suite 850
Nashville, Tennessee 37243
615/741-2364

FILING DATE: October 15, 2012

SECTION A: APPLICANT PROFILE

1. **Name of Facility, Agency, or Institution**

Memphis Long Term Care Specialty Hospital 2012 OCT 15 PM 2 56
Name

877 Jefferson Avenue — Shelby
Street or Route — County

Memphis — TN — 38103
City — State — Zip Code

2. **Contact Person Available for Responses to Questions**

E. Graham Baker, Jr. — Attorney at Law
Name — Title

2021 Richard Jones Road, Suite 350 — Nashville — TN — 37215-2874
Street or Route — City — State — Zip Code

Attorney — 615/383-3332 — 615/383-3480
Association with Owner — Phone Number — Fax Number

3. **Owner of the Facility, Agency, or Institution**

Memphis Long Term Care Specialty Hospital, LLC — 901/545-7100
Name — Phone Number

877 Jefferson Avenue — Shelby
Street or Route — County

Memphis — TN — 38103
City — State — Zip Code

4. **Type of Ownership of Control (Check One)**

A.	Sole Proprietorship	____	F.	Governmental (State of Tenn. or Political Subdivision)	____
B.	Partnership	____			
C.	Limited Partnership	____	G.	Joint Venture	____
D.	Corporation (For-Profit)	____	H.	Limited Liability Company	x
E.	Corporation (Not-For-Profit)	____	I.	Other (Specify) ____	____

PUT ALL ATTACHMENTS AT THE BACK OF THE APPLICATION IN ORDER AND REFERENCE THE APPLICABLE ITEM NUMBER ON ALL ATTACHMENTS. See *Attachment A.4.*

SECTION A:

APPLICANT PROFILE

Please enter all Section A responses on this form. All questions must be answered. If an item does not apply, please indicate "N/A". ***Attach appropriate documentation as an Appendix at the end of the application and reference the applicable Item Number on the attachment.***

2012 OCT 15 PM 2 57

Section A, Item 1: Facility Name must be applicant facility's name and address must be the site of the proposed project.

Response: Memphis Long Term Care Specialty Hospital, 877 Jefferson Avenue, Memphis (Shelby County), Tennessee 38103, the Applicant, is owned by Memphis Long Term Care Specialty Hospital, LLC ("Owner"), same address, which is in turn owned by Shelby County Healthcare Corporation, d/b/a the Regional Medical Center at Memphis ("The MED"), same address.

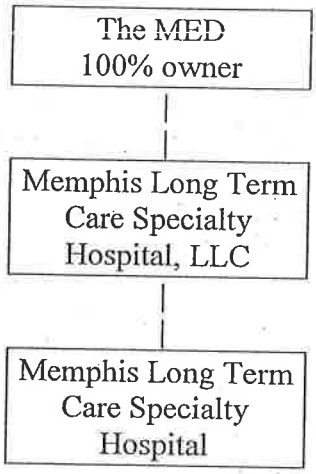
Section A, Item 3: Attach a copy of the partnership agreement, or corporate charter and certificate of corporate existence, if applicable, from the Tennessee Secretary of State.

Response: The requested documents for the Applicant are included in the application as *Attachment A.4.*

Section A, Item 4: Describe the existing or proposed ownership structure of the applicant, including an ownership structure organizational chart. Explain the corporate structure and the manner in which all entities of the ownership structure relate to the applicant. As applicable, identify the members of the ownership entity and each member's percentage of ownership, for those members with 5% or more ownership interest. In addition, please document the financial interest of the applicant, and the applicant's parent company/owner in any other health care institution as defined in Tennessee Code Annotated, §68-11-1602 in Tennessee. At a minimum, please provide the name, address, current status of licensure/certification, and percentage of ownership for each health care institution identified.

Response: Memphis Long Term Care Specialty Hospital, 877 Jefferson Avenue, Memphis (Shelby County), Tennessee 38103, the Applicant, is owned by Memphis Long Term Care Specialty Hospital, LLC ("Owner"), same address, which is in turn owned by Shelby County Healthcare Corporation, d/b/a the Regional Medical Center at Memphis ("The MED"), same address.

See the following organizational chart:



Section A, Item 5: For new facilities or existing facilities without a current management agreement, attach a copy of a draft management agreement that at least includes the anticipated scope of management services to be provided, the anticipated term of the agreement, and the anticipated management fee payment methodology and schedule. For facilities with existing management agreements, attach a copy of the fully executed final contract

Please describe the management entity's experience in providing management services for the type of the facility, which is the same or similar to the applicant facility. Please describe the ownership structure of the management entity.

Response: It is proposed that the Applicant facility will be managed by its Owner, with no outside management contract. However, the Owner is considering the possibility of hiring a management entity for the long term acute care hospital ("LTACH"). Discussions have taken place between The MED and outside management entities who specialize in managing LTACHs. However, no decisions have been made either to have an outside management company, or if so, which one. With that said, the Applicant is furnishing a draft management contract as *Attachment A.5*, which contract would serve as a basis for developing such a contract in the future, if necessary. In addition, the Projected Data Chart for the LTACH includes an expense of $300,000, which is thought to be a reasonable amount for such a contract if executed. Obviously, if the Applicant decides to self-manage the LTACH, this expense would be deleted.

Section A, Item 6: For applicants or applicant's parent company/owner that currently own the building/land for the project location, attach a copy of the tide/deed. For applicants or applicant's parent company/owner that currently lease the building/land for the project location, attach a copy of the fully executed lease agreement. For projects where the location of the project has not been secured, attach a fully executed document including Option to Purchase Agreement, Option to Lease Agreement, or other appropriate documentation. Option to Purchase Agreements must include anticipated purchase price. Lease/Option to Lease Agreements must include the actual/anticipated term of the agreement and actual/anticipated lease expense. The legal interests described herein must be valid on the date of the Agency's consideration of the certificate of need application.

Response: The Applicant will be located on an 18.55 acre site in downtown Memphis. The original lease between The MED and Shelby County began in 1981, and is for 50 years. The Applicant, through its Owner, has an Option to Lease the 4th floor of Turner Tower on the main campus of The MED. Appropriate documents regarding ownership of the property are included as *Attachment A.6*. The Option to Lease is included as *Attachment A.6.1*, which includes both the option and a map of The MED's campus showing the location of Turner Tower.

5. **Name of Management/Operating Entity (If Applicable)**

Not applicable
Name

Street or Route

County

City

State

Zip Code

PUT ALL ATTACHMENTS AT THE BACK OF THE APPLICATION IN ORDER AND REFERENCE THE APPLICABLE ITEM NUMBER ON ALL ATTACHMENTS. See *Attachment A.5*, a draft of a management contract, if utilized.

6. **Legal Interest in the Site of the Institution (Check One)**

A.	Ownership		D	Option to Lease	
B.	Option to Purchase		E	Other (Specify)	
C.	Lease of 5 Years	X			

PUT ALL ATTACHMENTS AT THE BACK OF THE APPLICATION IN ORDER AND REFERENCE THE APPLICABLE ITEM NUMBER ON ALL ATTACHMENTS. See *Attachment A.6 and Attachment A.6.1.*

7. **Type of Institution (Check as appropriate--more than one response may apply.)**

A.	Hospital	X	I.	Nursing Home	
B.	Ambulatory Surgical Treatment Center (Multi-Specialty)		J.	Outpatient Diagnostic Center	
C.	ASTC		K.	Recuperation Center	
D.	Home Health Agency		L.	Rehabilitation Facility	
E.	Hospice		M.	Residential Hospice	
F.	Mental Health Hospital		N.	Non-Residential Methadone Facility	
G.	Mental Health Residential Treatment Facility		O.	Birthing Center	
H.	Mental Retardation Institutional Habilitation Facility (ICF/MR)		P.	Other Outpatient Facility (Specify)	
			Q.	Other (Specify)	

8. **Purpose of Review (Check as appropriate--more than one response may apply.**

A.	New Institution		H.	Change In Bed Complement (Please note the type of change by underlining the appropriate response: Increase, Decrease Designation, Distribution, Conversion, Relocation)	
B.	Replacement/Existing Facility				
C.	Modification/Existing Facility				
D.	Initiation of Health Care Service as defined in TCA § 68-11-1607(4)		I.	Change of Location	X
E.	Specify		J.	Other (Specify)	
F.	Discontinuance of OB Services				
G.	Acquisition of Equipment				

9. **Bed Complement Data**

Please indicate current and proposed distribution and certification of facility beds.

Response: Relocation of 24 bed LTACH:

		Licensed	CON*	Staffed Beds	Beds Proposed	TOTAL Beds at Completion
A.	Medical					
B.	Surgical					
C.	Long-Term Care Hospital		24			24
D.	Obstetrical					
E.	ICU/CCU					
F.	Neonatal					
G.	Pediatric					
H.	Adult Psychiatric					
I.	Geriatric Psychiatric					
J.	Child/Adolescent Psychiatric					
K.	Rehabilitation					
L.	Nursing Facility (non-Medicaid Certified)					
M.	Nursing Facility Level 1 (Medicaid only)					
N.	Nursing Facility Level 2 (Medicare only)					
O.	Nursing Facility Level 2 (dually-certified)					
P.	ICF/MR					
Q.	Adult Chemical Dependency					
R.	Child & Adolescent Chemical Dependency					
S.	Swing Beds					
T.	Mental Health Residential Treatment					
U.	Residential Hospice					
	TOTAL		24			24

*CON Beds approved but not yet in service

** This application is for the relocation of Memphis Long Term Care Specialty Hospital (CN0908-046AE) to the main campus of The MED. The original hospital has been approved, but not yet constructed.

10. **Medicare Provider Number Certification Type** will be applied for Long Term Acute Care Hospital

11. **Medicaid Provider Number Certification Type** will be applied for Long Term Acute Care Hospital

12. **If this is a new facility, will certification be sought for Medicare and/or Medicaid?**

Response: Yes.

13. ***Identify all TennCare Managed Care Organizations/Behavioral Health Organizations (MCOs/BHOs) operating in the proposed service area.*** **Will this project involve the treatment of TennCare participants? No If the response to this item is yes, please identify all MCOs/BHOs with which the applicant has contracted *or plans to contract. Discuss any out-of-network relationships in place with MCOs/BHOs in the area.***

Response: The MED has TennCare contracts with UHC/Americhoice, Blue Care and TNCare Select. It is anticipated that the Applicant will contract with these same MCOs.

The Applicant will contract with any new MCOs that provide services in the area.

NOTE: *Section B is intended to give the applicant an opportunity to describe the project and to discuss the need that the applicant sees for the project. Section C addresses how the project relates to the Certificate of Need criteria of Need, Economic Feasibility, and the Contribution to the Orderly Development of Health Care. Discussions on how the application relates to the criteria should not take place in this section unless otherwise specified.*

SECTION B: PROJECT DESCRIPTION

Please answer all questions on 8 1/2" x 11" white paper, clearly typed and spaced, identified correctly and in the correct sequence. In answering, please type the question and the response. All exhibits and tables must be attached to the end of the application in correct sequence identifying the questions(s) to which they refer. If a particular question does not apply to your project, indicate "Not Applicable (NA)" after that question.

I. Provide a brief executive summary of the project not to exceed two pages. Topics to be included in the executive summary are a brief description of proposed services and equipment, ownership structure, service area, need, existing resources, project cost, funding, financial feasibility and staffing.

Response: Memphis Long Term Care Specialty Hospital, 877 Jefferson Avenue, Memphis (Shelby County), Tennessee 38103 ("Applicant"), owned and managed by Memphis Long Term Care Specialty Hospital, LLC, same address, ("Owner"), which is in turn owned by Shelby County Health Care Corporation, d/b/a, The Regional Medical Center at Memphis, 877 Jefferson Avenue, Memphis (Shelby County), Tennessee 38103 ("The "Med"), files this Certificate of Need application for the relocation of CN0908-046AE, a twenty-four (24) bed long term acute care hospital ("LTACH"), from its approved site at the intersection of Kirby Parkway and Kirby Gate Boulevard to the main campus of The Med. This LTACH will be located on the 4th floor of the Turner Tower, and will be a separately-licensed hospital. There are no new licensed beds (as this is a relocation of existing and approved beds) and no major medical equipment is involved with this project. The number of total licensed beds for the Applicant and The Med will not change. No other health services will be initiated or discontinued. It is proposed that Medicare, TennCare (Medicaid), commercially insured, and private-pay patients will be served by the Applicant, which will be licensed by the Tennessee Department of Health. The estimated project cost is anticipated to be approximately $8,208,743.21, including filing fee.

The Applicant's Owner, recently purchased by The MED, holds an approved Certificate of Need (CN0908-046AE) for a free-standing, 24 bed LTACH. Unfortunately, the Owner was not able to implement this project. Meeting at its September, 2012 monthly meeting, the HSDA approved The MED's request to purchase this project and move it to the main campus of The MED. This is that relocation application. As the beds have already been approved by the HSDA, there is no issue of need for the beds.

The original project was approved for an estimated project cost of $7,617,100. The project can be implemented for a much lower cost on the campus of The MED. The manner in which the Project Costs Chart is completed results in an apparent cost of $8,208,743.21, including filing fee. However, the actual cost to implement this project is only about $1,188,165 ($1,206,593.21 including filing fee) – the balance of which is the fair market value of the land, building, and equipment that already exists on The MED's campus where this LTACH will be located. As a result, the implementation of this project can be accomplished at a very real cost savings to the health care system, and can be implemented much faster

than having to construct a new hospital. The MED has sufficient cash reserves to fund this project, and substantiation of sufficient resources and that commitment are included in this application. Resultantly, there is no issue regarding economic feasibility for this project.

The Applicant will operate the LTACH as a "hospital within a hospital," which is not only permitted by CMS regulations – it is one of only two manners in which to operate an LTACH. The MED has sufficient staffing resources to staff the Applicant's hospital. Finally, the moratorium that was imposed by CMS in 2008 does not affect this project, since it was originally approved prior to the moratorium being set in place. The Applicant will be able to certify these beds as LTACH beds. As a result, there is no issue regarding contribution to the orderly development of health care for this project.

II. Provide a detailed narrative of the project by addressing the following items as they relate to the proposal.

A. Describe the construction, modification and/or renovation of the facility (exclusive of major medical equipment covered by T.C.A. § 68-11-1601 et seq.) including square footage, major operational areas, room configuration, etc. Applicants with hospital projects (construction cost in excess of $5 million) and other facility projects (construction cost in excess of $2 million) should complete the Square Footage and Cost per Square Footage Chart. Utilizing the attached Chart, applicants with hospital projects should complete Parts A.-E. by identifying as applicable nursing units, ancillary areas, and support areas affected by this project. Provide the location of the unit/service within the existing facility along with current square footage, where, if any, the unit/service will relocate temporarily during construction and renovation, and then the location of the unit/service with proposed square footage. The total cost per square foot should provide a breakout between new construction and renovation cost per square foot. Other facility projects need only complete Parts B.-E. Please also discuss and justify the cost per square foot for this project.

If the project involves none of the above, describe the development of the proposal.

Response: Memphis Long Term Care Specialty Hospital, 877 Jefferson Avenue, Memphis (Shelby County), Tennessee 38103 ("Applicant"), owned and managed by Memphis Long Term Care Specialty Hospital, LLC, same address, ("Owner"), which is in turn owned by Shelby County Health Care Corporation, d/b/a, The Regional Medical Center at Memphis, 877 Jefferson Avenue, Memphis (Shelby County), Tennessee 38103 ("The "Med"), files this Certificate of Need application for the relocation of CN0908-046AE, a twenty-four (24) bed long term acute care hospital ("LTACH"), from its approved site at the intersection of Kirby Parkway and Kirby Gate Boulevard to the main campus of The Med. This LTACH will be located on the 4th floor of the Turner Tower, and will be a separately-licensed hospital. There are no new licensed beds (as this is a relocation of existing and approved beds) and no major medical equipment is involved with this project. The number of total licensed beds for the Applicant and The Med will not change. No other health services will be initiated or discontinued. It is proposed that Medicare, TennCare (Medicaid), commercially insured, and private-pay patients will be served by the Applicant, which will be licensed by the Tennessee Department of Health. The estimated project cost is anticipated to be approximately $8,208,743.21, including filing fee.

The Applicant's Owner, recently purchased by The MED, holds an approved Certificate of Need (CN0908-046AE) for a free-standing, 24 bed LTACH. Unfortunately, the Owner was not able to implement this project. Meeting at its September, 2012 monthly meeting, the HSDA approved The MED's request to purchase this project and move it to the main campus of The MED. This is that relocation application. As the beds have already been approved by the HSDA, there is no issue of need for the beds.

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accomplished at a very real cost savings to the health care system, and can be implemented much faster than having to construct a new hospital. The MED has sufficient cash reserves to fund this project, and substantiation of sufficient resources and that commitment are included in this application. Resultantly, there is no issue regarding economic feasibility for this project.

The Applicant will operate the LTACH as a "hospital within a hospital," which is not only permitted by CMS regulations – it is one of only two manners in which to operate an LTACH. The MED has sufficient staffing resources to staff the Applicant's hospital. Finally, the moratorium that was imposed by CMS in 2008 does not affect this project, since it was originally approved prior to the moratorium being set in place. The Applicant will be able to certify these beds as LTACH beds. As a result, there is no issue regarding contribution to the orderly development of health care for this project.

The 4th floor of Turner Tower is already the subject of a CON application (CN1208-037) involving extensive renovation. It was originally planned that the 4th floor would be renovated at the same time as the remainder of the building in order to save considerable renovation/construction costs. Just as that application was being submitted, The MED became aware of the possible availability of the Applicant's CON which was apparently not going to be implemented. As the need exists for these 24 LTACH beds, The MED requested approval by the HSDA to purchase the Owner and implement that project in the space already being considered for renovation.

There should be no additional renovation costs to implement this LTACH on the 4th floor of Turner Tower. However, out of an abundance of caution, the Applicant decided to insert a contingency fund for both renovation and equipment, just in case such would be needed. The contingency fund for renovation totals $438,165, and the contingency fund for equipment totals $350,000. Also, $350,000 was spent in purchasing the Owner. Other than normal legal, consulting, and administrative costs of filing a CON application, no other "new" money is or could be required to implement this project. As stated earlier, FMV totals increase the apparent total project cost to $8,190,315, plus filing fee of $18,428.21. However, the actual implementation cost of this project will be closer to, and probably much less than, $1,000,000.

Long term acute care hospitals (LTACHs) care for catastrophically ill patients who have been stabilized in more critical-care settings but are too ill for discharge to an acute rehabilitation, skilled nursing, or home care setting. These medically fragile or unstable patients typically require extended acute care for periods of weeks. Their average length of stay ("ALOS") is 25 days or greater, and meeting their needs can strain hospitals' resources and budgets, but often there is no alternative facility that can provide the care these patients require.

Their conditions include chronic respiratory disorders and other pulmonary conditions; cardiac, neurological, and renal conditions; infections and severe wounds. Many are medically complex, with a combination of issues that often require cardiac monitoring, long term antibiotic and nutritional therapies, pain control, and continued life support. LTACH programs of care are designed for patients with serious conditions such as multiple nervous system disorders, cardiovascular disorders, extended antibiotic therapy, patients with tracheotomies, ventilators, dialysis, TPN, burn care, oncological conditions, and numerous other post-surgical and complex medical conditions. These patients require more nursing hours per patient day (5-8 hours) than non-acute facilities can provide; and they cannot withstand the rehabilitation regimens of a hospital rehabilitation unit. LTACHs are specifically designed to meet the needs of such long-stay, critically ill patients.

Normally, LTACHs are operated in one of two settings – (a) physically and operationally freestanding buildings; and (b) operationally freestanding facilities located in space leased from a "host" hospital.

Both models are freestanding from a legal perspective; and both models avoid incurring major diagnostic and physical plant overhead costs. This lowers their operating cost base well below the cost base of short term acute care hospitals, and most "related-party" long-term hospital units. By these means, LTACHs achieve significant savings which are passed on to consumers.

For informational purposes, a freestanding LTACH may or may not be physically located close to a tertiary hospital, but it is generally agreed that patient care is improved when the LTACH is close to referring facilities. Some support ancillary services may well be contracted by the LTACH to be provided by close referring facilities. Some support services, such as housekeeping, may be obtained on contract from close referring hospitals, or from outside vendors, in order to hold down capital and operating costs. In keeping with State Health Plan review criteria, costly duplication of existing hospital services are avoided to the maximum extent consistent with licensure requirements.

Regulations established by the Centers for Medicare and Medicaid Services ("CMS") prevent general acute care hospitals from operating LTACHs (LTACHs have to be separately-owned), but a separate "hospital-within-a-hospital" can quality. This is the model for this application.

A hospital-within-a-hospital:

1. leases existing space within the "host" hospital and purchases ancillary services from the host;

2. is fully responsible for patient care – admissions, treatment, discharge, billing and collection – and assumes all of the associated operational and financial risks;

3. is organizationally and functionally separate from the host hospital, with a separate license, Medicare provider number, governing body, medical staff, chief medical officer, and chief executive officer; and

4. has a strong clinical and operational fit with the host hospital and creates a seamless relationship for patients and physicians.

This LTACH will be operated exclusively for the care of a long term acute care population with an average length of stay in excess of 25 days. Our patients will be transferred to us from area hospitals where their prolonged care would have been much more expensive for payors, due to the higher overhead costs of short-term acute care hospitals.

We will be Medicare and Medicaid certified, and we will serve commercial payors of all types.

Advantages Provided by This LTACH Project.

LTACHs provide patients in Tennessee, and their families, physicians, and payors, with several significant advantages:

1. LTACHs Reduce The Expense of Long Term Acute Care for All Payors.

In all hospitals, a very small percentage of patients cannot complete their post-diagnostic acute care requirements without continuous high-intensity medical and nursing care of prolonged duration – extending many weeks. These extended care patients are a very small segment of total hospital caseloads; but they require very costly therapeutic services during their prolonged hospital stays.

Prolonged care occurs in a wide variety of medical and surgical cases. Some common examples include patients with tracheotomies, ventilators, dialysis, IV antibiotics, TPN, dopamine for renal perfusion, intensive wound care, and State III-IV decubitus. Many long term acute patients come directly from ICU's. Such patients are not appropriate for placement in their hospitals' skilled nursing or rehabilitation units, because of their high medical acuity, their fragility or instability, and the levels of staffing required to care for them.

For these reasons, the patients must stay in an acute care environment for many weeks. That tends to be very expensive. Because of the high overhead associated with plant and equipment to handle every acute care need, general hospitals have a relatively high average cost per patient day. When this is applied to patient stays of many weeks' duration (six weeks is a common average), the resulting total hospital charges to payors are very high.

The long term acute care hospital offers these patients and their payors a less costly alternative: an extended stay in an acute care environment which does not carry expensive diagnostic and support space overhead, but instead carries only acute care level professional staffing. This provides major savings.

LTACHs are able to provide such extended acute care at much lower costs per day because they are not as intensively capitalized as a general hospital. Every LTACH has heavy acute-care levels of staffing. But the LTACH does not have to maintain the varieties of in-house ancillary equipment and support spaces which general hospitals have to provide to patients during the initial, diagnostic-intensive short-term hospital stay. As we will be located on the campus of The MED, our patients will have ready access to any needed level of diagnostic service.

Another LTACH saving is seen in Medicare cost-based reimbursement claims. Being legally separate from a general hospital, an LTACH can claim only its own costs (and part of those of its corporate office, if any). By contrast, a long term acute care hospital that is "related" to a general hospital (i.e., owned by the same parent company) can allocate many of its "related" hospital's indirect costs to its own long term operation.

Therefore, it benefits payors for Tennessee area long-term acute care patients to be transferred to an LTACH for their post-DRG care. Transfer to our LTACH lowers acute care costs per patient day.

2. LTACHs Maximize Medicare Reimbursement for Tennessee and Reduce Cost-shifting.

The project increases the amount of appropriate reimbursement which Tennessee hospitals will receive for extended-stay Medicare patients.

As there is a current need for these LTACH beds, as already decided by the HSDA, some patients may now be located in traditional acute care beds. Existing LTACHs in Memphis are operating at 84.5% occupancy in 2010 (2011 JARs are provisional, and have not been vetted). Major un-reimbursed costs on extended care hospital patients must be shifted to other payors. Yet CMS is willing to compensate the State's healthcare system for its care of these types of Medicare patients in an appropriate facility such as an LTACH.

During development of the DRG-based Prospective Payment reimbursement system (PPS), CMS recognized that DRG's could not be utilized for some types of hospital settings whose patients have very long stays and unpredictable costs – such as long term acute care hospitals, rehabilitation units, and hospital-based skilled nursing units. Each addresses a small patient population, whose care requirements and total costs of care could not be predicted and standardized and hence could not be assigned a DRG reimbursement payment.

Therefore, CMS retained cost-based reimbursement programs for each of these three types of extended acute care. This decision was validated in a 1992 PROPAC (HCFA Advisory Committee) Report on Payment Reform, which concluded that "At the present time, developing a prospective payment system using a case-mix adjustment for long-term hospitals is not feasible." (Chapter 4)

By operating a qualifying, Medicare-certifiable long-term acute care hospital, we will enable local hospitals to transfer extended-care Medicare patients to a setting which can claim the Medicare support which is available for their post-DRG care. This reduces inappropriate cost-shifting to other payors.

3. The Applicant's LTACH will be an Accessible Provider for a Wide Range of Payors.

Our facility will offer our primary service area significant access advantages. It will be accessible and affordable to the widest range of payors.

Typically, a good mixture of patients will be about half Medicare, and our goal is to attain that mixture of patients. The original application anticipated 50% Medicare and 50% Medicaid. At present, we see no reason to alter those estimates.

4. Due to Owner's Relationship with The MED, Payor Contracts should be Easily Implemented.

The MED, owner of the Applicant's Owner, has payor contracts in place and the Applicant will be located on the campus of The MED, so there should be no problems in implementing payor contracts with the Applicant. Obviously, The MED will assist the Applicant whenever possible as the Applicant establishes this LTACH.

5. The Applicant will Serve Patients who are Currently Underserved.

As stated, the HSDA has already approved the implementation of these 24 LTACH beds. Therefore, patients who are in need of long term acute care services will have another alternative location for placement.

6. Project Costs for this Application are Comparable to other Hospital Projects.

The 4th floor of Turner Tower is already being considered for renovation in an application filed earlier, and the Option to Lease shows that our lease costs will be very low. Therefore, the cost of implementing this project will be much lower than would be the cost of constructing a new hospital. Also, assuming the earlier CON project is approved, renovation will begin on the 4th floor very quickly and these LTACH beds should be able to come on line soon and serve patients who need the care. Our lower startup costs should ensure lower patient charges.

B. Identify the number and type of beds increased, decreased, converted, relocated, designated, and/or redistributed by this application. Describe the reasons for change in bed allocations and describe the impact the bed change will have on the existing services.

Response: This application is for the relocation of CN0908-046AE, a twenty-four (24) bed long term acute care hospital ("LTACH"), from its approved site at the intersection of Kirby Parkway and Kirby Gate Boulevard to the main campus of The Med.

Some obvious reasons for this relocation are:

1. Time constraints prohibited the continuation of this project at its approved site;
2. The approved site is located several miles from referring tertiary hospitals in Memphis;
3. The site for this particular application is on the campus of The MED, on the 4th floor of Turner Tower, so the physical location for this approved LTACH is much more convenient for patients who are already hospitalized in downtown Memphis; and
4. The MED, owner of the Applicant's Owner, had the space available, which means the LTACH can come on line much more quickly and begin serving patients who need the services.

Existing services should not be affected by this relocation, as the 24 beds have already been approved.

C. As the applicant, describe your need to provide the following health care services (if applicable to this application):

1. Adult Psychiatric Services
2. Alcohol and Drug Treatment for Adolescents (exceeding 28 days)
3. Birthing Center
4. Burn Units
5. Cardiac Catheterization Services
6. Child and Adolescent Psychiatric Services
7. Extracorporeal Lithotripsy
8. Home Health Services
9. Hospice Services
10. Residential Hospice
11. ICF/MR Services
12. Long-term Care Services
13. Magnetic Resonance Imaging (MRI)
14. Mental Health Residential Treatment
15. Neonatal Intensive Care Unit
16. Non-Residential Methadone Treatment Centers
17. Open Heart Surgery
18. Positron Emission Tomography
19. Radiation Therapy/Linear Accelerator
20. Rehabilitation Services
21. Swing Beds

Response: The Applicant believes this question is not applicable. However, in case "12. Long-term Care Services" (normally defined as nursing home care) above includes LTACH services, answers to prior questions are replicated below.

Memphis Long Term Care Specialty Hospital, 877 Jefferson Avenue, Memphis (Shelby County), Tennessee 38103 ("Applicant"), owned and managed by Memphis Long Term Care Specialty Hospital, LLC, same address, ("Owner"), which is in turn owned by Shelby County Health Care Corporation, d/b/a, The Regional Medical Center at Memphis, 877 Jefferson Avenue, Memphis (Shelby County), Tennessee 38103 ("The "Med"), files this Certificate of Need application for the relocation of CN0908-046AE, a twenty-four (24) bed long term acute care hospital ("LTACH"), from its approved site at the intersection of Kirby Parkway and Kirby Gate Boulevard to the main campus of The Med. This LTACH will be located on the 4th floor of the Turner Tower, and will be a separately-licensed hospital. There are no new licensed beds (as this is a relocation of existing and approved beds) and no major medical equipment is involved with this project. The number of total licensed beds for the Applicant and The Med will not change. No other health services will be initiated or discontinued. It is proposed that Medicare, TennCare (Medicaid), commercially insured, and private-pay patients will be served by the Applicant, which will be licensed by the Tennessee Department of Health. The estimated project cost is anticipated to be approximately $8,208,743.21, including filing fee.

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relocation application. As the beds have already been approved by the HSDA, there is no issue of need for the beds.

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There should be no additional renovation costs to implement this LTACH on the 4th floor of Turner Tower. However, out of an abundance of caution, the Applicant decided to insert a contingency fund for both renovation and equipment, just in case such would be needed. The contingency fund for renovation totals $438,165, and the contingency fund for equipment totals $350,000. Also, $350,000 was spent in purchasing the Owner. Other than normal legal, consulting, and administrative costs of filing a CON application, no other "new" money is or could be required to implement this project. As stated earlier, FMV totals increase the apparent total project cost to $8,190,315, plus filing fee of $18,428.21. However, the actual implementation cost of this project will be closer to, and probably much less than, $1,000,000.

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Their conditions include chronic respiratory disorders and other pulmonary conditions; cardiac, neurological, and renal conditions; infections and severe wounds. Many are medically complex, with a combination of issues that often require cardiac monitoring, long term antibiotic and nutritional therapies, pain control, and continued life support. LTACH programs of care are designed for patients with serious

conditions such as multiple nervous system disorders, cardiovascular disorders, extended antibiotic therapy, patients with tracheotomies, ventilators, dialysis, TPN, burn care, oncological conditions, and numerous other post-surgical and complex medical conditions. These patients require more nursing hours per patient day (5-8 hours) than non-acute facilities can provide; and they cannot withstand the rehabilitation regimens of a hospital rehabilitation unit. LTACHs are specifically designed to meet the needs of such long-stay, critically ill patients.

Normally, LTACHs are operated in one of two settings – (a) physically and operationally freestanding buildings; and (b) operationally freestanding facilities located in space leased from a "host" hospital. Both models are freestanding from a legal perspective; and both models avoid incurring major diagnostic and physical plant overhead costs. This lowers their operating cost base well below the cost base of short term acute care hospitals, and most "related-party" long-term hospital units. By this means, LTACHs achieve significant savings which are passed on to consumers.

For informational purposes, a freestanding LTACH may or may not be physically located close to a tertiary hospital, but it is generally agreed that patient care is improved when the LTACH is close to referring facilities. Some support ancillary services may well be contracted by the LTACH to be provided by close referring facilities. Some support services, such as housekeeping, may be obtained on contract from close referring hospitals, or from outside vendors, in order to hold down capital and operating costs. In keeping with State Health Plan review criteria, costly duplication of existing hospital services are avoided to the maximum extent consistent with licensure requirements.

Regulations established by the Centers for Medicare and Medicaid Services ("CMS") prevent general acute care hospitals from operating LTACHs (LTACHs have to be separately-owned), but a separate "hospital-within-a-hospital" can quality. This is the model for this application.

A hospital-within-a-hospital:

1. leases existing space within the "host" hospital and purchases ancillary services from the host;

2. is fully responsible for patient care – admissions, treatment, discharge, billing and collection – and assumes all of the associated operational and financial risks;

3. is organizationally and functionally separate from the host hospital, with a separate license, Medicare provider number, governing body, medical staff, chief medical officer, and chief executive officer; and

4. has a strong clinical and operational fit with the host hospital and creates a seamless relationship for patients and physicians.

This LTACH will be operated exclusively for the care of a long term acute care population with an average length of stay in excess of 25 days. Our patients will be transferred to us from area hospitals where their prolonged care would have been much more expensive for payors, due to the higher overhead costs of short-term acute care hospitals.

We will be Medicare and Medicaid certified, and we will serve commercial payors of all types.

Advantages Provided by This LTACH Project.

LTACHs provide patients in Tennessee, and their families, physicians, and payors, with several significant advantages:

1. LTACHs Reduce The Expense of Long Term Acute Care for All Payors.

In all hospitals, a very small percentage of patients cannot complete their post-diagnostic acute care requirements without continuous high-intensity medical and nursing care of prolonged duration – extending many weeks. These extended care patients are a very small segment of total hospital caseloads; but they require very costly therapeutic services during their prolonged hospital stays.

Prolonged care occurs in a wide variety of medical and surgical cases. Some common examples include patients with tracheotomies, ventilators, dialysis, IV antibiotics, TPN, dopamine for renal perfusion, intensive wound care, and State III-IV decubitus. Many long term acute patients come directly from ICU's. Such patients are not appropriate for placement in their hospitals' skilled nursing or rehabilitation units, because of their high medical acuity, their fragility or instability, and the levels of staffing required to care for them.

For these reasons, the patients must stay in an acute care environment for many weeks. That tends to be very expensive. Because of the high overhead associated with plant and equipment to handle every acute care need, general hospitals have a relatively high average cost per patient day. When this is applied to patient stays of many weeks' duration (six weeks is a common average), the resulting total hospital charges to payors are very high.

The long term acute care hospital offers these patients and their payors a less costly alternative: an extended stay in an acute care environment which does not carry expensive diagnostic and support space overhead, but instead carries only acute care level professional staffing. This provides major savings.

LTACHs are able to provide such extended acute care at much lower costs per day because they are not as intensively capitalized as a general hospital. Every LTACH has heavy acute-care levels of staffing. But the LTACH does not have to maintain the varieties of in-house ancillary equipment and support spaces which general hospitals have to provide to patients during the initial, diagnostic-intensive short-term hospital stay. As we will be located on the campus of The MED, our patients will have ready access to any needed level of diagnostic service.

Another LTACH saving is seen in Medicare cost-based reimbursement claims. Being legally separate from a general hospital, an LTACH can claim only its own costs (and part of those of its corporate office, if any). By contrast, a long term acute care hospital that is "related" to a general hospital (i.e., owned by the same parent company) can allocate many of its "related" hospital's indirect costs to its own long term operation.

Therefore, it benefits payors for Tennessee area long-term acute care patients to be transferred to an LTACH for their post-DRG care. Transfer to our LTACH lowers acute care costs per patient day.

2. LTACHs Maximize Medicare Reimbursement for Tennessee and Reduce Cost-shifting.

The project increases the amount of appropriate reimbursement which Tennessee hospitals will receive for extended-stay Medicare patients.

As there is a current need for these LTACH beds, as already decided by the HSDA, some patients may now be located in traditional acute care beds. Existing LTACHs in Memphis are operating at 84.5% occupancy in 2010 (2011 JARs are provisional, and have not been vetted). Major un-reimbursed costs on extended care hospital patients must be shifted to other payors. Yet CMS is willing to compensate the State's healthcare system for its care of these types of Medicare patients in an appropriate facility such as an LTACH.

During development of the DRG-based Prospective Payment reimbursement system (PPS), CMS recognized that DRG's could not be utilized for some types of hospital settings whose patients have very long stays and unpredictable costs – such as long term acute care hospitals, rehabilitation units, and hospital-based skilled nursing units. Each addresses a small patient population, whose care requirements and total costs of care could not be predicted and standardized and hence could not be assigned a DRG reimbursement payment.

Therefore, CMS retained cost-based reimbursement programs for each of these three types of extended acute care. This decision was validated in a 1992 PROPAC (HCFA Advisory Committee) Report on Payment Reform, which concluded that "At the present time, developing a prospective payment system using a case-mix adjustment for long-term hospitals is not feasible." (Chapter 4)

By operating a qualifying, Medicare-certifiable long-term acute care hospital, we will enable local hospitals to transfer extended-care Medicare patients to a setting which can claim the Medicare support which is available for their post-DRG care. This reduces inappropriate cost-shifting to other payors.

3. The Applicant's LTACH will be an Accessible Provider for a Wide Range of Payors.

Our facility will offer our primary service area significant access advantages. It will be accessible and affordable to the widest range of payors.

Typically, a good mixture of patients will be about half Medicare, and our goal is to attain that mixture of patients. The original application anticipated 50% Medicare and 50% Medicaid. At present, we see no reason to alter those estimates.

4. Due to Owner's Relationship with The MED, Payor Contracts should be Easily Implemented.

The MED, owner of the Applicant's Owner, has payor contracts in place and the Applicant will be located on the campus of The MED, so there should be no problems in implementing payor contracts with the Applicant. Obviously, The MED will assist the Applicant whenever possible as the Applicant establishes this LTACH.

5. The Applicant will Serve Patients who are Currently Underserved.

As stated, the HSDA has already approved the implementation of these 24 LTACH beds. Therefore, patients who are in need of long term acute care services will have another alternative location for placement.

6. Project Costs for this Application are Comparable to other Hospital Projects.

The 4th floor of Turner Tower is already being considered for renovation in an application filed earlier, and the Option to Lease shows that our lease costs will be very low. Therefore, the cost of implementing this project will be much lower than would be the cost of constructing a new hospital. Also, assuming the earlier CON project is approved, renovation will begin on the 4th floor very quickly and these LTACH

beds should be able to come on line soon and serve patients who need the care. Our lower startup costs should ensure lower patient charges.

D. Describe the need to change location or replace an existing facility.

Response: This application is for the relocation of CN0908-046AE, a twenty-four (24) bed long term acute care hospital ("LTACH"), from its approved site at the intersection of Kirby Parkway and Kirby Gate Boulevard to the main campus of The Med.

Some obvious reasons for this relocation are:

1. Time constraints prohibited the continuation of this project at its approved site;

2. The approved site is located several miles from referring tertiary hospitals in Memphis;

3. The site for this particular application is on the campus of The MED, on the 4th floor of Turner Tower, so the physical location for this approved LTACH is much more convenient for patients who are already hospitalized in downtown Memphis; and

4. The MED, owner of the Applicant's Owner, had the space available, which means the LTACH can come on line much more quickly and begin serving patients who need the services.

Existing services should not be affected by this relocation, as the 24 beds have already been approved.

E. **Describe the acquisition of any item of major medical equipment (as defined by the Agency Rules and the Statute) which exceeds a cost of $1.5 million; and/or is a magnetic resonance imaging (MRI) scanner, positron emission tomography (PET) scanner, extracorporeal lithotripter and/or linear accelerator by responding to the following:**

1. **For fixed-site major medical equipment (not replacing existing equipment):**

   a. **Describe the new equipment, including:**

      1. **Total cost; (As defined by Agency Rule).**
      2. **Expected useful life;**
      3. **List of clinical applications to be provided; and**
      4. **Documentation of FDA approval.**

   b. **Provide current and proposed schedules of operations.**

Response: N/A.

2. **For mobile major medical equipment:**
   a. **List all sites that will be served;**
   b. **Provide current and/or proposed schedule of operations;**
   c. **Provide the lease or contract cost.**
   d. **Provide the fair market value of the equipment; and**
   e. **List the owner for the equipment.**

Response: N/A.

3. **Indicate applicant's legal interest in equipment (*i.e.*, purchase, lease, etc.) In the case of equipment purchase include a quote and/or proposal from an equipment vendor, or in the case of an equipment lease provide a draft lease or contract that at least includes the term of the lease and the anticipated lease payments.**

Response: N/A.

III. **(A) Attach a copy of the plot plan of the site on an 8 1/2" x 11" sheet of white paper which must include:**

1. **Size of site (*in acres*)**
2. **Location of structure on the site; and**
3. **Location of the proposed construction.**
4. **Names of streets, roads or highway that cross or border the site.**

Please note that the drawings do not need to be drawn to scale. Plot plans are required for all projects.

Response:

1. The size of the medical complex at The MED approximates 18.55 Acres. Please see attached plot plan (*Attachment B.III.A.1*).

2. Please see *Attachment B.III.A.1*. This attachment indicates the location of the existing buildings on the site. This LTACH will be located on the 4th floor of Turner Tower.

3. There is no proposed construction, as normally intimated by this question, as the space already exists. An earlier CON application is requesting approval for a major buildout to Turner Tower, its position noted on *Attachment B.III.A.1*. When Turner Tower was completed in 1992, the upper floors were only shelled in, and remain empty to this day. That earlier project will entail a major buildout, including HVAC and other mechanical systems. Assuming that CON is approved, there should be no extensive renovation for this project.

4. *Attachment B.III.A.1* shows that The MED is bounded by Jefferson Avenue, N. Pauline Street, Madison Avenue, and N. Dunlap Avenue. The site is downtown Memphis and is readily accessible to patients, family members, and other health care providers. Other hospitals are located nearby. This attachment also shows that other providers even own plots of land located within this block.

(B) Describe the relationship of the site to public transportation routes, if any, and to any highway or major road developments in the area. Describe the accessibility of the proposed site to patients/clients.

Response: *Attachment B.III.A.1* shows that The MED is bounded by Jefferson Avenue, N. Pauline Street, Madison Avenue, and N. Dunlap Avenue. The site is downtown Memphis, close to I-240 and is readily accessible to patients, family members, and other health care providers. Public transportation is available.

IV. **Attach a floor plan drawing for the facility which includes legible labeling of patient care rooms (noting private or semi-private), ancillary areas, equipment areas, etc. on an 8 1/2" x 11" sheet of white paper.**

NOTE: *DO NOT SUBMIT BLUEPRINTS*. Simple line drawings should be submitted and need not be drawn to scale.

Response: Please see *Attachment B.IV* for a footprint of the 4th floor of Turner Tower. The Applicant will lease this space for the relocated 24 bed LTACH.

V. **For a Home Health Agency or Hospice, identify:**

1. **Existing service area by County;**
2. **Proposed service area by County;**
3. **A parent or primary service provider;**
4. **Existing branches; and**
5. **Proposed branches.**

Response: N/A.

SECTION C: GENERAL CRITERIA FOR CERTIFICATE OF NEED

In accordance with Tennessee Code Annotated § 68-11-1609(b), "no Certificate of Need shall be granted unless the action proposed in the application for such Certificate is necessary to provide needed health care in the area to be served, can be economically accomplished and maintained, and will contribute to the orderly development of health care." The three (3) criteria are further defined in Agency Rule 0720-4-.01. Further standards for guidance are provided in the state health plan (Guidelines for Growth), developed pursuant to Tennessee Code Annotated §68-11-1625.

The following questions are listed according to the three (3) criteria: (I) Need, (II) Economic Feasibility, and (III) Contribution to the Orderly Development of Health Care. Please respond to each question and provide underlying assumptions, data sources, and methodologies when appropriate. *Please type each question and its response on an 8 1/2" x 11" white paper*. All exhibits and tables must be attached to the end of the application in correct sequence identifying the question(s) to which they refer. If a question does not apply to your project, indicate "Not Applicable (NA)."

QUESTIONS

NEED

1. **Describe the relationship of this proposal toward the implementation of the State Health Plan and Tennessee's Health: Guidelines for Growth.**

   a. **Please provide a response to each criterion and standard in Certificate of Need Categories that are applicable to the proposed project. Do not provide responses to General Criteria and Standards (pages 6-9) here.**

Response: Please see *Attachment Specific Criteria.*

1. **The purpose of the State Health Plan is to improve the health of Tennesseans;**

The MED, owner of the Applicant's Owner, has been serving patients since 1936. This project will provide a new and needed service on the campus of the MED. Services will be provided to a select group of patients who have special needs. The approval of this project will help provide those needed services.

2. **Every citizen should have reasonable access to health care;**

The Applicant will accept all appropriate patients who present for care, irrespective of their ability to pay.

3. **The state's health care resources should be developed to address the needs of Tennesseans while encouraging competitive markets, economic efficiencies, and the continued development of the state's health care system;**

The development of services by The MED, and now its affiliate LTACH, has always been the result of attempts to meet the needs of Tennesseans. This project will result in improvement of services by relocating needed and needed LTACH beds. Therefore, the approval of this application will enhance the "development" of hospital services in the proposed service area.

4. **Every citizen should have confidence that the quality of health care is continually monitored and standards are adhered to by health care providers; and**

Tennessee is fortunate to have an excellent licensing division of the Department of Health. The Board of Licensing Health Care Facilities provides standards for and monitoring of licensed health care providers. This Applicant will be licensed by the Department of Health and will be certified by Medicare and Medicaid.

5. **The state should support the development, recruitment, and retention of a sufficient and quality health care workforce.**

The Applicant is committed to providing safe working conditions and continuing education for its staff. The Applicant hopes to participate in training various health care specialties and various educational institutions through its affiliation with The MED, which serves as a clinical rotation site for the UT Schools of Medicine and Nursing and other Allied Health Professional Schools. The MED is a member of THA, AHA, TNPath, and NAPH.

b. Applications that include a Change of Site for a health care institution, provide a response to General Criterion and Standards (4)(a-c).

Response: Please see below.

> **(4) Applications for Change of Site. When considering a certificate of need application which is limited to a request for a change of site for a proposed new health care institution, the Commission (sic) may consider, in addition to the foregoing factors, the following factors:**
>
> **(a) *Need.* The applicant should show the proposed new site will serve the health care needs in the area to be served at least as well as the original site. The applicant should show that there is some significant legal, financial, or practical need to change the proposed new site.**

Response: The original, approved site is located several miles from downtown Memphis. It is generally agreed that patient care is improved when the LTACH is close to referring facilities. Some support ancillary services may well be contracted by the LTACH to be provided by close referring facilities. Some support services, such as housekeeping, may be obtained on contract from close referring hospitals, or from outside vendors, in order to hold down capital and operating costs. In keeping with State Health Plan review criteria, costly duplication of existing hospital services are avoided to the maximum extent consistent with licensure requirements.

Regulations established by the Centers for Medicare and Medicaid Services ("CMS") prevent general acute care hospitals from operating LTACHs (LTACHs have to be separately-owned), but a separate "hospital-within-a-hospital" can quality. This is the model for this application.

A hospital-within-a-hospital:

1. leases existing space within the "host" hospital and purchases ancillary services from the host;

2. is fully responsible for patient care – admissions, treatment, discharge, billing and collection – and assumes all of the associated operational and financial risks;

3. is organizationally and functionally separate from the host hospital, with a separate license, Medicare provider number, governing body, medical staff, chief medical officer, and chief executive officer; and

4. has a strong clinical and operational fit with the host hospital and creates a seamless relationship for patients and physicians.

This LTACH will be operated exclusively for the care of a long term acute care population with an average length of stay in excess of 25 days. Our patients will be transferred to us from area hospitals where their prolonged care would have been much more expensive for payors, due to the higher overhead costs of short-term acute care hospitals.

(b) Economic factors. The applicant should show that the proposed new site would be at least as economically beneficial to the population to be served as the original site.

Response: The original project was approved for an estimated project cost of $7,617,100. The project can be implemented for a much lower cost on the campus of The MED. The manner in which the Project Costs Chart is completed results in an apparent cost of $8,208,743.21, including filing fee. However, the actual cost to implement this project is only about $1,188,165 ($1,206,593.21 including filing fee) – the balance of which is the fair market value of the land, building, and equipment that already exists on The MED's campus where this LTACH will be located. As a result, the implementation of this project can be accomplished at a very real cost savings to the health care system, and can be implemented much faster than having to construct a new hospital. The MED has sufficient cash reserves to fund this project, and substantiation of sufficient resources and that commitment are included in this application. Resultantly, there is no issue regarding economic feasibility for this project.

(c) Contribution to the orderly development of health care facilities and/or services. The applicant should address any potential delays that would be caused by the proposed change of site, and show that any such delays are outweighed by the benefit that will be gained from the change of site by the population to be served.

Response: The 24 LTACH beds that are the subject of this relocation application have already been approved by the HSDA. The Applicant will operate the LTACH as a "hospital within a hospital," which is not only permitted by CMS regulations – it is one of only two manners in which to operate an LTACH. The MED has sufficient staffing resources to staff the hospital. Finally, the moratorium that was imposed by CMS in 2008 does not affect this project, since it was originally approved prior to the moratorium being set in place. The Applicant will be able to certify these beds as LTACH beds. As a result, there is no issue regarding contribution to the orderly development of health care for this project.

2. **Describe the relationship of this project to the applicant facility's long-range development plans, if any.**

Response: There is no long range development plan at this facility. Sufficient space exists for the provision of LTACH services for the foreseeable future.

3. **Identify the proposed service area and justify the reasonableness of that proposed area. Submit a county level map including the State of Tennessee clearly marked to reflect the service area. Please submit the map on 8 1/2" x 11" sheet of white paper marked only with ink detectable by a standard photocopier (i.e., no highlighters, pencils, etc.).**

Response: The Applicant's primary service area is Shelby County. This hospital will be located inside The MED, and it is assumed that, at least at the initial implementation of the hospital, the LTACH's patient origin data will track that of The MED. Approximately 88.5% of The MED's patients who originate in Tennessee were from Shelby County in 2011, according to the provisional JAR for that year. The MED provided 68,095 inpatient days to Tennessee residents in 2011, with 60,247 originating from Shelby County. With that said, The MED also provided care to patients from 31 total counties in Tennessee in 2011, and patients from at least 10 other states came to the Applicant for care in 2011. In addition to the 68,095 patient days provided to Tennessee residents, 22,677 inpatient days were provided to residents of other states, bringing the total inpatient days to 90,772. While this data emphasizes the "regional" nature of The MED's service area, for Tennessee purposes, Shelby County is our primary service area.

Please see *Attachment C.Need.3* for a map of the service area.

4. A. **Describe the demographics of the population to be served by this proposal.**

Response: Our proposed service area is Shelby County. The projected population for the next 4 years, according to the TN Department of Health, is as follows:

2012	949,665
2013	956,126
2014	963,097
2015	970,591
2016	976,726

In addition, U.S. Census Bureau data for the U.S., State and Shelby County is supplied as *Attachment C.Need.4.A.* This attachment shows that whereas 13.4% of the 2010 Tennessee population was over 65, only 10.4% of Shelby County population was aged. Per capita annual income in Shelby County was $25,002 from 2006 - 2010, whereas Tennessee had an average per capita income of $23,722 for the same reporting period. Median household income for 2006 – 2010 for Shelby County totaled $44,705, and comparable income for the State was $43,314. Finally, 16.5% of Tennesseans live below the poverty level, whereas 19.7% of Shelby County residents live below the poverty level.

See chart below:

Selected Demographic Estimates for Shelby County/Tennessee

Demographics	Shelby Co.	Tennessee
Total Population - 2011	935,088	6,403,353
Total Population – 2010	927,644	6,346,110
Total Population - % Change	0.8%	0.9%
% Age 65+ Population – 2011	10.4%	13.7%
% Female	52.3%	41.3%
% Male	47.7%	48.7%
% White	43.6%	79.5%
% Black	52.3%	16.9%
TennCare Enrollees – 2011	228,681	1,209,372
TennCare Enrollees -- % of Total Pop - 2011	24.5%	18.9%
Per Capita Income	$25,002	$23,722
Median Household Income	$44,705	$43,314
Percent Living Below Poverty Level	19.7%	16.5%
Population per Square Mile	1,216	153.9
Homeownership Rate	61.7%	69.6%

Source: 2011 QuickFacts, US Census Bureau; TennCare Enrollees from State of Tennessee website.

B. Describe the special needs of the service area population, including health disparities, the accessibility to consumers, particularly the elderly, women, racial and ethnic minorities, and low-income groups. Document how the business plans of the facility will take into consideration the special needs of the service area population.

Response: According to the U.S. Department of Health and Human Services, there are 58 Medically Underserved Area tracts in Shelby County. In addition, the same source shows that there are 113 census tracts that are Health Professional Shortage Areas. See *Attachment C.Need.4.B.*

Further, the previous chart shows that Shelby County has a high percentage of racial minorities, and both per capita income and average household income for Shelby County compare favorably with both Tennessee and the nation. The Applicant will accept all appropriate patients who present for care, irrespective of their ability to pay. The approval of this project will only enhance the care delivered to all patients at The MED, our host hospital, including minorities and low income patients.

5. Describe the existing or certified services, including approved but unimplemented CONs, of similar institutions in the service area. Include utilization and/or occupancy trends for each of the most recent three years of data available for this type of project. Be certain to list each institution and its utilization and/or occupancy individually. Inpatient bed projects must include the following data: admissions or discharges, patient days, and occupancy. Other projects should use the most appropriate measures, e.g., cases, procedures, visits, admissions, etc.

Response: *Attachment C.Need.5* reflects the number of beds, patient days, and occupancy rates for the last four years for all hospitals in Memphis. The chart below lists only those LTACHs in Shelby County.

Year/Hospital	Beds	I/P Days	Occupancy Rate
2008			
Baptist Memorial Restorative Care Hospital	30	9,414	86.0%
Methodist Extended Care Hospital	36	10.446	79.5%
Select Specialty Hospital – Memphis	39	12,303	86.4%
2009			
Baptist Memorial Restorative Care Hospital	30	9,331	85.2%
Methodist Extended Care Hospital	36	11,757	89.5%
Select Specialty Hospital – Memphis	39	13,473	94.6%
2010			
Baptist Memorial Restorative Care Hospital	30	8,015	73.2%
Methodist Extended Care Hospital	36	11,370	86.6%
Select Specialty Hospital – Memphis	39	12,680	89.1%
2011			
Baptist Memorial Restorative Care Hospital	30	8,004	73.1%
Methodist Extended Care Hospital	36	11,337	86.3%
Select Specialty Hospital – Memphis	39	13,470	94.6%

Source: 2008 - 2011 Joint Annual Reports for Hospitals (2011 were Provisional)

6. **Provide applicable utilization and/or occupancy statistics for your institution for each of the past three (3) years and the projected annual utilization for each of the two (2) years following completion of the project. Additionally, provide the details regarding the methodology used to project utilization. The methodology must include detailed calculations or documentation from referral sources, and identification of all assumptions.**

Response: The Applicant has no existing facility. We restate our anticipation of operating at 95% for each of the first two years of operation.

The MED authorized an outside firm to review acute discharge data from July 1, 2010 to June 30, 2011. The firm looked in detail at 875 MED patients who had a length of stay of 15 days or more, and were diagnosed with an LTACH DRG. These patients stayed in The MED anywhere from 15 days to over 100 days, and had an ALOS of 32.89 days (greater than the minimum 25 day ALOS required of LTACHs). The study concluded that without any changes to physician patterns, these patients alone could have filled a 78 bed LTACH, and, statistically, a 37 bed LTACH would operate at 100% occupancy (85% occupancy with 43 beds). The results of the study proves that the Applicant's 24 bed LTACH should anticipate operating at or above 95% once licensed.

ECONOMIC FEASIBILITY

1. **Provide the cost of the project by completing the Project Costs Chart on the following page. Justify the cost of the project.**

-- **All projects should have a project cost of at least $3,000 on Line F. (Minimum CON Filing Fee). CON filing fee should be calculated from Line D. (See Application Instructions for Filing Fee)**

-- **The cost of any lease should be based on fair market value or the total amount of the lease payments over the initial term of the lease, whichever is greater.**

-- **The cost for fixed and moveable equipment includes, but is not necessarily limited to, maintenance agreements covering the expected useful life of the equipment; federal, state, and local taxes and other government assessments; and installation charges, excluding capital expenditures for physical plant renovation or in-wall shielding, which should be included under construction costs or incorporated in a facility lease.**

-- **For projects that include new construction, modification, and/or renovation; documentation must be provided from a contractor and/or architect that support the estimated construction costs.**

Response: The Project Costs Chart is completed.

The Applicant has included a contingency construction amount of $438,165. The 4th floor of Turner Tower is approximately 21,340 GSF. Therefore, contingency construction/renovation costs approximate $20.54 per GSF.

The following chart, prepared by the HSDA, indicates construction costs for recent hospital applications. A review of these average costs indicate this particular project is financially feasible:

Hospital Construction Cost Per Square Foot

Years: 2009 – 2011

	Renovated Construction	New Construction	Total Construction
1st Quartile	$125.84/sq ft	$235.86/sq ft	$167.99/sq ft
Median	$177.60/sq ft	$274.63/sq ft	$249.32/sq ft
3rd Quartile	$273.69/sq ft	$324.00/sq ft	$301.74/sq ft

Source: CON approved applications for years 2009 through 2011, HSDA.

PROJECT COSTS CHART

A.	Construction and equipment acquired by purchase.	
1.	Architectural and Engineering Fees	$
2.	Legal, Administrative (Excluding CON Filing Fee), Consultant	50,000
3.	Acquisition of Site	
4.	Preparation of Site	
5.	Construction Costs (Contingency)	438,165
6.	Contingency Fund	
7.	Fixed Equipment (Not included in Construction Contract)(Contingency)	350,000
8.	Moveable Equipment (List all equipment over $50,000)*	
9.	Other (Specify) Purchase LLC	350,000
	Subsection A Total	**1,188,165**
B.	Acquisition by gift, donation, or lease.	
1.	Facility (Inclusive of Building and Land) (FMV of Property)	5,772,000
2.	Building Only	
3.	Land Only	
4.	Equipment (Specify)	
5.	Other (Specify)	1,230,150
	Subsection B Total	**7,002,150**
C.	Financing costs and fees	
1.	Interim Financing	
2.	Underwriting Costs	
3.	Reserve for One Year's Debt Service	
4.	Other (Specify)	
	Subsection C Total	**0**
D.	Estimated Project Cost (A + B + C)	**$ 8,190,315.00**
E.	CON Filing Fee	**$ 18,428.21**
F.	Total Estimated Project Cost (D + E) TOTAL	**$ 8,208,743.21**

2. **Identify the funding sources for this project.**

   a. **Please check the applicable item(s) below and briefly summarize how the project will be financed.** ***(Documentation for the type of funding MUST be inserted at the end of the application, in the correct alpha/numeric order and identified as Attachment C, Economic Feasibility-2.)***

___ **A. Commercial loan--Letter from lending institution or guarantor stating favorable initial contact, proposed loan amount, expected interest rates, anticipated term of the loan, and any restrictions or conditions;**

___ **B. Tax-exempt bonds--Copy of preliminary resolution or a letter from the issuing authority stating favorable initial contact and a conditional agreement from an underwriter or investment banker to proceed with the issuance;**

___ **C. General obligation bonds—Copy of resolution from issuing authority or minutes from the appropriate meeting.**

___ **D. Grants--Notification of intent form for grant application or notice of grant award; or**

X **E. Cash Reserves--Appropriate documentation from Chief Financial Officer.**

___ **F. Other—Identify and document funding from all other sources.**

Response: See *Attachment C.EF.2*, which is a letter from the Senior Executive Vice President & CFO of The Regional Medical Center at Memphis, the owner of the Applicant's Owner, indicating that sufficient cash reserves are both available and designated for this project.

3. **Discuss and document the reasonableness of the proposed project costs. If applicable, compare the cost per square foot of construction to similar projects recently approved by the Health Services and Development Agency.**

Response: The Applicant has included a contingency construction amount of $438,165. The 4th floor of Turner Tower is approximately 21,340 GSF. Therefore, contingency construction/renovation costs approximate $20.54 per GSF.

The following chart, prepared by the HSDA, indicates construction costs for recent hospital applications. A review of these average costs indicate this particular project is financially feasible:

Hospital Construction Cost Per Square Foot

Years: 2009 – 2011

	Renovated Construction	New Construction	Total Construction
1st Quartile	$125.84/sq ft	$235.86/sq ft	$167.99/sq ft
Median	$177.60/sq ft	$274.63/sq ft	$249.32/sq ft
3rd Quartile	$273.69/sq ft	$324.00/sq ft	$301.74/sq ft

Source: CON approved applications for years 2009 through 2011, HSDA.

4. **Complete Historical and Projected Data Charts on the following two pages--Do not modify the Charts provided or submit Chart substitutions! Historical Data Chart represents revenue and expense information for the last three (3) years for which complete data is available for the institution. Projected Data Chart requests information for the two (2) years following the completion of this proposal. Projected Data Chart should reflect revenue and expense projections for the Proposal Only (i.e., if the application is for additional beds, include anticipated revenue from the proposed beds only, not from all beds in the facility).**

Response: Historical and Projected Data Charts are completed.

Historical Data Chart: This CON application is to relocate an approved 24 bed LTACH that has not been constructed. Therefore, the Applicant has no historical data.

HISTORICAL DATA CHART

Give information for the last *three (3)* years for which complete data are available for the facility or agency. The fiscal year begins in January (month).

Response: Not Applicable.

A.	Utilization/Occupancy Rate			
B.	Revenue from Services to Patients			
	1. Inpatient Services			
	2. Outpatient Services			
	3. Emergency Services			
	4. Other Operating Revenue (Specify) Rental & Interest Income			
	Gross Operating Revenue			
C.	Deductions from Operating Revenue			
	1. Contractual Adjustments			
	2. Provision for Charity Care			
	3. Provision for Bad Debt			
	Total Deductions			
	NET OPERATING REVENUE			
D.	Operating Expenses			
	1. Salaries and Wages			
	2. Physician's Salaries and Wages			
	3. Supplies			
	4 . Taxes			
	5 . Depreciation			
	6. Rent			
	7. Interest, other than Capital			
	8. Management Fees:			
	a. Fees to Affiliates			
	b. Fees to Non-Affiliates			
	9. Other Expenses (Specify)_			
	Total Operating Expenses			
E.	Other Revenue (Expenses)-Net (Specify)_____			
	NET OPERATING INCOME (LOSS)			
F.	Capital Expenditures			
	1. Retirement of Principal			
	2. Interest			
	Total Capital Expenditure			
	NET OPERATING INCOME (LOSS) LESSCAPITAL EXPENDITURES			

PROJECTED DATA CHART

Give information for the two (2) years following the completion of this project. The fiscal year begins in January (month).

2012 OCT 15 PM 2 57

		Yr-1	Yr-2
A.	Utilization/Occupancy (8,322 patient days)	95%	95%
	Revenue from Services to Patients		
	1. Inpatient Services	**28,143,153**	**28,874,875**
	2. Outpatient Services		
	3. Emergency Services		
	4. Other Operating Revenue (Specify) _____		
	Gross Operating Revenue	**28,143,153**	**28,874,875**
C.	Deductions from Operating Revenue		
	1. Contractual Adjustments	14,466,961	14,843,102
	2. Provision for Charity Care	1,407,173	1,443,744
	3. Provision for Bad Debt	1,407,173	1,443,744
	Total Deductions	**17,281,307**	**17,730,590**
	NET OPERATING REVENUE	**10,861,846**	**11,144,285**
D.	Operating Expenses		
	1. Salaries and Wages	5,833,630	5,985,305
	2. Physician's Salaries and Wages (Contracted)	150,000	153,900
	3. Supplies	870,526	893,160
	4 . Taxes	851,119	873,250
	5 . Depreciation	150,000	150,000
	6. Rent	1	1
	7. Interest, other than Capital		
	8. Management Fees:		
	a. Fees to Affiliates		
	b. Fees to Non - Affiliates	300,000	315,000
	9. Other Expenses (Specify) See Attached Chart	1,832,461	1,880,105
	Total Operating Expenses	**9,987,737**	**10,250,721**
E.	Other Revenue (Expenses)-Net (Specify)		
	NET OPERATING INCOME (LOSS)	**874,109**	**893,564**
F.	Capital Expenditures		
	1. Retirement of Principal		
	2. Interest (on Letter of Credit)		
	Total Capital Expenditure		
	NET OPERATING INCOME (LOSS) LESS CAPITAL EXPENDITURES	**874,109**	**893,564**

OTHER EXPENSES
(D.9)

Other Expenses	Year 1	Year 2
Insurance	94,700	97,162
Utilities	350,882	360,005
Legal & Accounting	27,354	28,065
Repairs & Maintenance	160,484	164,656
Travel/Meals & Entertainment	35,000	35,000
Ancillary Patient Services	1,034,965	1,062,785
Equipment Rentals	129,076	132,432
Total Other (D.9)	1,832,461	1,880,105

5. **Please identify the project's average gross charge, average deduction from operating revenue, and average net charge.**

Response: Not applicable, as this is a new facility.

6. A. **Please provide the current and proposed charge schedules for the proposal. Discuss any adjustment to current charges that will result from the implementation of the proposal. Additionally, describe the anticipated revenue from the proposed project and the impact on existing patient charges.**

Response: There are no current charge schedules. We anticipate average gross, average deductions, and average net to be approximately $3,382, $2,077, and $1,305, respectively.

The last application by the Applicant anticipated comparable figures of approximately $1,283, $275, and $1,008, respectively.

B. Compare the proposed charges to those of similar facilities in the service area/adjoining service areas, or to proposed charges of projects recently approved by the Health Services and Development Agency. If applicable, compare the proposed charges of the project to the current Medicare allowable fee schedule by common procedure terminology (CPT) code(s).

Response: The following information was obtained from the latest (2011) Joint Annual Reports ("JARs") from the existing LTACHs in Shelby County. Average figures were calculated by dividing the number of patient days into the (1) Total Gross Patient Revenues, (2) Total Adjustments to Revenues, and (3) Total Net Patient Revenues for 2011. The resultant information is given in the chart below:

Patient Charge Data, LTACHs
Shelby County, 2011

Facility	Beds	Occ.	Pt days	Avg. Gross	Avg. Deduct	Avg. Net
Baptist Memorial Restorative Care	30	73.1%	8,004	$5,541	$3,997	$1,544
Methodist Extended Care	36	86.3%	11,337	$3,313	$1,953	$1,360
Select Specialty Hospital – Memphis	39	94.6%	13,470	$4,110	$2,543	$1,567

Source: Joint Annual Reports for LTACHs, 2011

Notes: Avg. Gross = average gross charge per patient day
Avg. Deduct = average deductions per patient day
Avg. Net = average net charge per patient day
These numbers may be "off" a dollar or two due to rounding.

7. **Discuss how projected utilization rates will be sufficient to maintain cost-effectiveness.**

Response: The Projected Data Chart indicates sufficient income to maintain cost-effectiveness, with a positive cash flow in both Years 1 & 2. Obviously, income is dependent upon rendering services to a sufficient number of patients.

Further, since the need for these LTACH beds has already been established and an analysis of patients in The Med showed more than enough patients to fill this LTACH, the Applicant feels that the beds that are subject to this relocation application will be utilized in a most cost-effective manner.

8. **Discuss how financial viability will be ensured within two years; and demonstrate the availability of sufficient cash flow until financial viability is achieved.**

Response: The Projected Data Chart indicates sufficient income to maintain cost-effectiveness, with a positive cash flow in both Years 1 & 2. Obviously, income is dependent upon rendering services to a sufficient number of patients.

Further, since the need for these LTACH beds has already been established and an analysis of patients in The Med showed more than enough patients to fill this LTACH, the Applicant feels that the beds that are subject to this relocation application will be utilized in a most cost-effective manner.

9. **Discuss the project's participation in state and federal revenue programs including a description of the extent to which Medicare, TennCare/Medicaid, and medically indigent patients will be served by the project. In addition, report the estimated dollar amount of revenue and percentage of total project revenue anticipated from each of TennCare, Medicare, or other state and federal sources for the proposal's first year of operation.**

Response: The Applicant will participate in Medicare and Medicaid. We originally anticipated that about 50% of our patients would be Medicare and the remaining 50% would be Medicaid.

Based on these percentages, we anticipate revenue from Medicare patients will approximate $5,430,923 in Year 1 (Net Revenue of $10,861,846 x 50% Medicare). Further, we would anticipate revenue from Medicaid patients will approximate $1,629,277 (Net Revenue of $10,861,846 x 50% x 30% State share).

10. **Provide copies of the balance sheet and income statement from the most recent reporting period of the institution and the most recent audited financial statements with accompanying notes, if applicable. For new projects, provide financial information for the corporation, partnership, or principal parties involved with the project. Copies must be inserted at the end of the application, in the correct alpha-numeric order and labeled as Attachment C, Economic Feasibility-10.**

Response: See *Attachment C.EF.10.* The Applicant has no substantive financials, as it was and is a startup company. As The MED is the ultimate owner of the Applicant's Owner, these financials are for The MED. These financials are not audited, as they have not gone through the audit process yet.

11. **Describe all alternatives to this project which were considered and discuss the advantages and disadvantages of each alternative including but not limited to:**

a. **A discussion regarding the availability of less costly, more effective, and/or more efficient alternative methods of providing the benefits intended by the proposal. If development of such alternatives is not practicable, the applicant should justify why not; including reasons as to why they were rejected.**

Response: With the approval by the HSDA for The MED to purchase the Owner and move the LTACH to The MED's campus, there were no other alternatives to consider.

b. **The applicant should document that consideration has been given to alternatives to new construction, e.g., modernization or sharing arrangements. It should be documented that superior alternatives have been implemented to the maximum extent practicable.**

Response: With the approval by the HSDA for The MED to purchase the Owner and move the LTACH to The MED's campus, there were no other alternatives to consider.

The 4th floor of Turner Tower will, hopefully, be renovated for this project, assuming the earlier CON application filed by The MED is approved. By coincidence, that earlier application provided that the 4th floor would be renovated for 24 med/surg beds. This project will be incorporated into that floor.

CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTH CARE

1. **List all existing health care providers (e.g., hospitals, nursing homes, home care organizations, etc.), managed care organizations, alliances, and/or networks with which the applicant currently has or plans to have contractual and/or working relationships, e.g., transfer agreements, contractual agreements for health services.**

Response: The Applicant hopes to participate in the same or similar relationships with providers as does The MED, our host hospital. The MED has TennCare contracts with UHC/Americhoice, Blue Care and TNCare Select. The Applicant will contract with any MCOs that provide services in the area.

2. **Describe the positive and/or negative effects of the proposal on the health care system. Please be sure to discuss any instances of duplication or competition arising from your proposal including a description of the effect the proposal will have on the utilization rates of existing providers in the service area of the project.**

Response: This should not be an issue. There are three existing LTACHs in Memphis, and they operated at 73.1%, 86.3% and 94.6% in 2011. Further, the Applicant has already been approved for the addition of 24 LTACH beds in the area.

This application is to relocate an existing, approved project – not to increase the number of LTACH beds in the area.

Therefore, there should be no duplication or competition arising from this relocation.

3. **Provide the current and/or anticipated staffing pattern for all employees providing patient care for the project. This can be reported using FTEs for these positions. Additionally, please compare the clinical staff salaries in the proposal to prevailing wage patterns in the service area as published by the Tennessee Department of Labor & Workforce Development and/or other documented sources.**

Response: There is no current staffing pattern. The proposed staffing pattern is set forth in summary form below, along with salary approximations:

Position	Current FTE	Hourly Salary	Proposed FTE
Administrator	0	$50-60/hr	1.0
Receptionist	0	$14-16/hr	1.0
Director of Nursing	0	$50-55/hr	1.0
RNs	0	$22-40/hr	33.0
CNAs	0	$11-15/hr	22.0
Nurse Practitioner	0	$34-43/hr	2.0

We believe we will have no difficulty in filling these positions.

See *Attachment C.OD.3* for comparable wage patterns in West Tennessee.

4. **Discuss the availability of and accessibility to human resources required by the proposal, including adequate professional staff, as per the Department of Health, the Department of Mental Health and Developmental Disabilities, and/or the Division of Mental Retardation Services licensing requirements.**

Response: We believe that adequate additional staff are readily available to provide appropriate care to all patients in our 24 bed LTACH. The MED, our host hospital, has offered to provide assistance in this endeavor. The University of Tennessee in Memphis maintains programs in both physical and occupational therapies, and the University of Memphis has a nursing school from which to draw future staff.

We believe we will have no difficulty in filling these positions.

5. **Verify that the applicant has reviewed and understands all licensing certification as required by the State of Tennessee for medical/clinical staff. These include, without limitation, regulations concerning physician supervision, credentialing, admission privileges, quality assurance policies and programs, utilization review** ***policies and programs, record keeping, and staff education.***

Response: The Applicant is familiar with all licensing certification requirements for the provision of LTACH services.

6. **Discuss your health care institution's participation in the training of students in the areas of medicine, nursing, social work, etc. (*e.g.*, internships, residencies, etc.).**

Response: The Med has clinical affiliation relationships with UT School of Medicine and the University of Memphis School of Nursing. The Applicant hopes to interface with these schools, also.

7. **(a) Please verify, as applicable, that the applicant has reviewed and understands the licensure requirements of the Department of Health, the Department of Mental Health and Developmental Disabilities, the Division of Mental Retardation Services, and/or any applicable Medicare requirements.**

Response: The Applicant is familiar with all licensing certification requirements for the provision of LTACH services.

(b) Provide the name of the entity from which the applicant has received or will receive licensure, certification, and/or accreditation.

Response:

Licensure:	Tennessee Department of Health
Accreditation:	Medicare, Medicaid

(c) If an existing institution, please describe the current standing with any licensing, certifying, or accrediting agency. Provide a copy of the current license of the facility.

Response: Not applicable.

(d) For existing licensed providers, document that all deficiencies (if any) cited in the last licensure certification and inspection have been addressed through an approved plan of correction. Please include a copy of the most recent licensure/certification inspection with an approved plan of correction.

Response: Not applicable.

8. **Document and explain any final orders or judgments entered in any state or country by a licensing agency or court against professional licenses held by the applicant or any entities or persons with more than a 5% ownership interest in the applicant. Such information is to be provided for licenses regardless of whether such license is currently held.**

Response: There have been no final orders or judgments as are contemplated by this question.

9. **Identify and explain any final civil or criminal judgments for fraud or theft against any person or entity with more than a 5% ownership interest in the project**

Response: There have been no final orders or judgments as are contemplated by this question.

10. **If the proposal is approved, please discuss whether the applicant will provide the Tennessee Health Services and Development Agency and/or the reviewing agency information concerning the number of patients treated, the number and type of procedures performed, and other data as required.**

Response: The Applicant will provide all data contemplated by this question.

PROOF OF PUBLICATION

Attach the full page of the newspaper in which the notice of intent appeared with the mast and dateline intact or submit a publication affidavit from the newspaper as proof of the publication of the letter of intent.

Response: If the requested documentation is not attached, it will be submitted once received.

DEVELOPMENT SCHEDULE

Tennessee Code Annotated § 68-11-1609(c) provides that a Certificate of Need is valid for a period not to exceed three (3) years (for hospital projects) or two (2) years (for all other projects) from the date of its issuance and after such time shall expire; provided, that the Agency may, in granting the Certificate of Need, allow longer periods of validity for Certificates of Need for good cause shown. Subsequent to granting the Certificate of Need, the Agency may extend a Certificate of Need for a period upon application and good cause shown, accompanied by a non-refundable reasonable filing fee, as prescribed by rule. A Certificate of Need which has been extended shall expire at the end of the extended time period. The decision whether to grant such an extension is within the sole discretion of the Agency, and is not subject to review, reconsideration, or appeal.

1. **Please complete the Project Completion Forecast Chart on the next page. If the project will be completed in multiple phases, please identify the anticipated completion date for each phase.**
2. **If the response to the preceding question *indicates that the applicant does not anticipate completing the project within the period of validity as defined in the preceding paragraph,* please state below any request for an extended schedule and document the "good cause" for such an extension.**

Form HF0004
Revised 05/03/04
Previous Forms are obsolete

PROJECT COMPLETION FORECAST CHART

Enter the Agency projected Initial Decision date, as published in Rule 68-11-1609(c): 12/2012.

2012 OCT 15 PM 2 58

Assuming the CON approval becomes the final agency action on that date; indicate the number of day **from the above agency decision date** to each phase of the completion forecast.

Phase	DAYS REQUIRED	Anticipated Date (MONTH/YEAR)
1. Architectural and engineering contract signed	60	05/2012
2. Construction documents approved, TDOH	250	01/2013
3. Construction contract signed	205	11/2012
4. Building permit secured	30	02/2013
5. Site preparation completed	0	02/2013
6. Building construction commenced	60	04/2013
7. Construction 40% complete	240	12/2013
8. Construction 80% complete	240	07/2014
9. Construction 100% complete (app., occupancy)	160	01/2015
10. *Issuance of license	60	03/2015
11. *Initiation of service	30	04/2015
12. Final Architectural Certification of Payment	30	05/2015
13. Final Project Report Form (HF0055)	10	05/2015

*** For projects that do NOT involve construction or renovation : Please complete items 10 and 11 only.**

Note: If litigation occurs, the completion forecast will be adjusted at the time of the final determination to reflect the actual issue date.

Note: As the Applicant proposes to be housed on the 4th Floor of Turner Tower, the above chart is a duplicate of the chart submitted on that prior CON application which concerns the renovation of Turner Tower

AFFIDAVIT

STATE OF TENNESSEE

COUNTY OF DAVIDSON

2012 OCT 15 PM 2 58

E. Graham Baker, Jr., being first duly sworn, says that he/she is the applicant named in this application or his/her/its lawful agent, that this project will be completed in accordance with the application, that the applicant has read the directions to this application, the Rules of the Health Services and Development Agency, and T.C.A. § 68-11-1601, *et seq.*, and that the responses to this application or any other questions deemed appropriate by the Health Services and Development Agency are true and complete to the best of his/her knowledge.

E. Graham Baker, Jr. ATTORNEY

SIGNATURE/TITLE

Sworn to and subscribed before me this 15th day of October, 2012 (month) (year), a

Notary Public in and for the County/State of Davidson/Tennessee.

NADEAN E. POTEET STATE OF TENNESSEE NOTARY PUBLIC DAVIDSON COUNTY

NOTARY PUBLIC

My commission expires May 6th, 2013 (Month/Day) (Year).

LONG TERM CARE HOSPITAL BEDS

A. Need

1. **The need for long term care hospital (LTH) beds shall be determined by applying the guidelines of (0.5) beds per 10,000 population in the service area of the proposal.**

Response: Not applicable. This application is for the relocation of approved beds.

2. **If the project is a bed addition, existing long term care hospital beds must have a minimum average occupancy of 85%.**

Response: Not applicable. This application is for the relocation of approved beds.

3. **The population shall be the current year's population, projected two years forward.**

Response: Our proposed service area is Shelby County. The projected population for the next 4 years, according to the TN Department of Health, is as follows:

2012	949,665
2013	956,126
2014	963,097
2015	970,591
2016	976,726

In addition, U.S. Census Bureau data for the U.S., State and Shelby County is supplied as *Attachment C.Need.4.A.* This attachment shows that whereas 13.4% of the 2010 Tennessee population was over 65, only 10.4% of Shelby County population was aged. Per capita annual income in Shelby County was $25,002 from 2006 - 2010, whereas Tennessee had an average per capita income of $23,722 for the same reporting period. Median household income for 2006 – 2010 for Shelby County totaled $44,705, and comparable income for the State was $43,314. Finally, 16.5% of Tennesseans live below the poverty level, whereas 19.7% of Shelby County residents live below the poverty level.

See chart below:

Selected Demographic Estimates for Shelby County/Tennessee

Demographics	Shelby Co.	Tennessee
Total Population - 2011	935,088	6,403,353
Total Population – 2010	927,644	6,346,110
Total Population - % Change	0.8%	0.9%
% Age 65+ Population – 2011	10.4%	13.7%
% Female	52.3%	41.3%
% Male	47.7%	48.7%
% White	43.6%	79.5%
% Black	52.3%	16.9%
TennCare Enrollees – 2011	228,681	1,209,372
TennCare Enrollees -- % of Total Pop - 2011	24.5%	18.9%
Per Capita Income	$25,002	$23,722
Median Household Income	$44,705	$43,314
Percent Living Below Poverty Level	19.7%	16.5%
Population per Square Mile	1,216	153.9
Homeownership Rate	61.7%	69.6%

Source: 2011 QuickFacts, US Census Bureau; TennCare Enrollees from State of Tennessee website.

4. **The primary service area can not be smaller than the applicant's Community Service Area (CSA). If LTH beds are proposed within an existing hospital, CSAs served by the existing facility can be included along with consideration for populations in adjacent states when the applicant provides documentation (such as admission sources from the Joint Annual Report).**

Response: Our proposed service area is Shelby County. The projected population for the next 4 years, according to the TN Department of Health, is as follows:

2012	949,665
2013	956,126
2014	963,097
2015	970,591
2016	976,726

This hospital will be located inside The MED, and it is assumed that, at least at the initial implementation of the hospital, the LTACH's patient origin data will track that of The MED. Approximately 88.5% of The MED's patients who originate in Tennessee were from Shelby County in 2011, according to the provisional JAR for that year. The MED provided 68,095 inpatient days to Tennessee residents in 2011, with 60,247 originating from Shelby County. With that said, The MED also provided care to patients from 31 total counties in Tennessee in 2011, and patients from at least 10 other states came to the Applicant for care in 2011. In addition to the 68,095 patient days provided to Tennessee residents, 22,677 inpatient days were

provided to residents of other states, bringing the total inpatient days to 90,772. While this data emphasizes the "regional" nature of The MED's service area, for Tennessee purposes, Shelby County is our primary service area.

Please see *Attachment C.Need.3* for a map of the service area.

5. **Long term care hospitals should have a minimum size of 20 beds.**

Response: The Applicant is relocating 24 beds.

B. Economic Feasibility

1. **The payer costs of a long term hospital should demonstrate a substantial saving, or the services should provide additional benefit to the patient over the payer cost or over the provision of short term general acute care alternatives, treating a similar patient mix of acuity.**

Response: There are no current charge schedules. We anticipate average gross, average deductions, and average net to be approximately $3,382, $2,077, and $1,305, respectively.

2. **The payer costs should be such that the facility will be financially accessible to a wide range of payers as well as to adolescent and adult patients of all ages.**

We will be Medicare and Medicaid certified, and we will serve commercial payors of all types.

We originally anticipated that about 50% of our patients would be Medicare and the remaining 50% would be Medicaid.

Based on these percentages, we anticipate revenue from Medicare patients will approximate $5,430,923 in Year 1 (Net Revenue of $10,861,846 x 50% Medicare). Further, we would anticipate revenue from Medicaid patients will approximate $1,629,277 (Net Revenue of $10,861,846 x 50% x 30% State share).

3. **Provisions will be made so that a minimum of 5% of the patient population using long term acute care beds will be charity or indigent care.**

Response: Our Projected Data Chart allows for 5% charity care.

C. Orderly Development

1. **Services offered by the long term care hospital must be appropriate for medically complex patients who require daily physician intervention, 24 hours access per day of professional nursing (requiring approximately 6-8 hours per patient day of nursing and therapeutic services), and on-site support and access to appropriate multi-specialty medical consultants.**

Response: The Applicant will ensure that each patient presented for health care services will be an appropriate admission for a long term acute care hospital bed, including those patients requiring daily physician intervention, 24 hours access per day of professional nursing (requiring approximately 6-8 hours per patient day of nursing and therapeutic services), and on-site support, and that appropriate multi-specialty medical consultants will be available for each patient.

Patient services should be available as needed for the most appropriate provision of care. These services should include restorative inpatient medical care, hyperalimentation, care of ventilator dependent patients, long term antibiotic therapy, long term pain control, terminal AIDS care, and management of infectious and pulmonary diseases.

Response: The Applicant will ensure that each patient presented for health care services will be an appropriate admission for a long term acute care hospital bed, including services to include restorative inpatient medical care, hyperalimentation, care of ventilator dependent patients, long term antibiotic therapy, long term pain control, terminal AIDS care, and management of infectious and pulmonary diseases.

Also, to avoid unnecessary duplication, the project should not include services such as obstetrics, advanced emergency care, and other services which are not operationally pertinent to long term care hospitals.

Response: The Applicant will not provide obstetrics, advanced emergency care, or other services which are not operationally pertinent to long term care hospitals.

2. **The applicant should provide assurance that the facility's patient mix will exhibit an annual average aggregate length of stay greater than 25 days as calculated by the Health Care Finance Administration (HCFA) (sic), and will seek licensure only as a hospital.**

Response: The Applicant will ensure that each patient presented for health care services will be an appropriate admission for a long term acute care hospital bed, one criteria of which is that the ALOS should be greater than 25 days as calculated by the CMS.

3. **The applicant should provide assurance that the projected caseload will require no more than three (3) hours per day of rehabilitation.**

Response: The Applicant will ensure that the projected caseload will require no more than three (3) hours per day of rehabilitation.

4. **Because of the very limited statewide need for long term hospital beds, and their high overall acuity of care, these beds should be allocated only to community service areas and be either inside or in close proximity to tertiary referral hospitals, to enhance physical accessibility to the largest concentration of services, patients, and medical specialists.**

Response: The Applicant will ensure that the beds will be allocated only to community service areas and will be in close proximity to tertiary referral hospitals, which will enhance physical accessibility to the largest concentration of services, patients, and medical specialists. We will be located in The MED, and close to other tertiary hospitals in Memphis.

5. **In order to insure that the beds and the facility will be used for the purpose certified, any certificate of need for a long term care hospital should be conditioned on the institution being certified by the Health Care Financing Administration (sic) as a long term care hospital, and qualifying as PPS-exempt under applicable federal guidelines. If such certification is received (sic) prior to the expiration date of the certificate of need, as provided in Tennessee Code Annotated (TCA), Section 68-11-108(c) (sic), the certificate of need shall expire, and become null and void.**

Response: The Applicant states that the beds will be used for the purpose certified, and agrees to the condition that our facility will continue to be certified by the CMS as a long term care hospital, and qualifying as PPS-exempt under applicable federal guidelines.

The Commercial Appeal
Affidavit of Publication

2012 OCT 15 PM 2 58

STATE OF TENNESSEE
COUNTY OF SHELBY

Personally appeared before me Patrick Maddox, a Notary Public, Helen Moriarty, of MEMPHIS PUBLISHING COMPANY, a corporation, publishers of The Commercial Appeal, morning and Sunday paper, published in Memphis, Tennessee, who makes oath in due form of law, that she is Legal Clerk of the said Memphis Publishing Company, and that the accompanying and hereto attached notice was published in the following edition of The Commercial Appeal to-wit:

October 10, 2012

Helen Moriarty

Subscribed and sworn to before me this 10th day of October, 2012

Patrick Maddox Notary Public

My commission expires 2/15/16

PATRICK MADDOX
STATE OF TENNESSEE NOTARY PUBLIC
SHELBY COUNTY

My Commission Expires 02/15/2016

Restaurant Equipment 392

HOBART MIXER 140 QT. with attachments, excellent condition, worth 26,000 new, asking $11,000. (904)427-0992.

Radio/Video Equipment 395

TV, Mitsubishi 60" HD TV, $850 obo. Call 901-370-4820

Wanted to Buy 397

WANTED

CASH FAST FOR NICE ...te model washers, ...ryers. Working or not ...est pickup. 901-315-6013

DIABETIC TEST Strips ...eeded! $$ CASH $$ paid ...most types. Up to $10/box. Call: (731)468-6964

ALL ME BEFORE U SELL ...rn...appls...House fulls,etc ...ughlan Furniture 323-3393

call 901-529-5273 ...place a help wanted ad

Wearing Apparel 398

Legal Notices: 500

Legal Notices: 501

Legal Notices: 500

interest of said Deed of Trust having been last transferred to JPMorgan Chase Bank, National Association by assignment; and, JPMorgan Chase Bank, National Association, as the current holder of said Deed of Trust (the "Holder"), has appointed as Substitute Trustee the undersigned, any of whom may act, by instrument filed for record in the Register's Office of Shelby County, Tennessee with all the rights, powers and privileges of the original Trustee named in said Deed of Trust; therefore, NOTICE is hereby given that the entire amount of said indebtedness has been declared due and payable as provided in said Deed of Trust by the Holder, and the undersigned as Substitute Trustee, or a duly appointed attorney or agents by virtue of the power and authority vested by the Appointment of Substitute Trustee, will on Thursday, October 18, 2012 commencing at 12:00 P.M. at the Southwest Corner, Adams Avenue Entrance of the Shelby County Courthouse, Memphis, Tennessee; sell to the highest bidder for cash, immediately at the close of sale, the following property to-wit: The following described real property situate in the City of Memphis, County of Shelby, and State of Tennessee, to wit: Lot 1, Phase 1, Diamond Estates Subdivision as shown in plat of record in Book 171, Page 52, in the Registers Office of Shelby County, Tennessee, to which plat reference is hereby made for a more particular description of AFORESAID JOINS HEREIN FOR THE PURPOSES OF GRANTING, BARGAINING, SELLING, CONVEYING AND CONFIRMING AND DOES HEREBY GRANT, BARGAIN, SELL, CONVEY AND CONFIRM UNTO THE PARTY OF THE SECOND PART, HIS SUCCESSORS AND ASSIGNS ALL RIGHTS, CLAIMS AND INTEREST OF EVERY KIND, CHARACTER AND DESCRIPTION WHATSOEVER WHICH SHE NOW HAS OR HEREINAFTER MAY ACQUIRE BY VIRTUE OF HIS MARRIAGE, INCLUDING BUT NOT LIMITED TO, HOMESTEAD AND ANY INTEREST IN THE AFORESAID REAL ESTATE PROPERTY AS ALL OR PART OF AN ELECTED SHARE OF A SURVIVING SPOUSE AS PROVIDED BY THE LAWS OF THE STATE OF TENNESSEE. Parcel ID: 18E-B-2.00 PROPERTY ADDRESS: The street address of the property is believed to be 222 BLUEBIRD STREET, COVINGTON, TN 38019. In the event of any discrepancy between this street address and the legal description of the property, the legal description shall control. CURRENT OWNER(S): EUNICE S LEE, ANTHONY L MCGEE OTHER INTERESTED PARTIES: CAROLYN A. MCGEE The sale of the above-described property shall be subject to all matters shown on any recorded plat; any unpaid taxes; any restrictive covenants, easements or set-back lines that may be applicable; any prior liens

NOTIFICATION OF INTENT TO APPLY FOR A CERTIFICATE OF NEED

This is to provide official notice to the Health Services and Development Agency and all interested parties, in accordance with T.C.A. §68-11-1601, et seq., and the Rules of the Health Services and Development Agency, that Memphis Long Term Care Specialty Hospital, 877 Jefferson Avenue, Memphis (Shelby County), Tennessee 38103 ("Applicant"), owned and managed by Memphis Long Term Care Specialty Hospital, LLC, same address, ("Owner"), which is in turn owned by Shelby County Health Care Corporation, d/b/a, The Regional Medical Center at Memphis, 877 Jefferson Avenue, Memphis (Shelby County), Tennessee 38103 ("The "Med"), is applying for a Certificate of Need for the relocation of CN0908-046AE, a twenty-four (24) bed long term acute care hospital ("LTACH"), from its approved site at the intersection of Kirby Parkway and Kirby Gate Boulevard to the main campus of The Med. This LTACH will be located on the 4th floor of the Turner Tower, and will be a separately-licensed hospital. There are no new licensed beds (as this is a relocation of existing and approved beds) and no major medical equipment is involved with this project. The number of total licensed beds for the Applicant and The Med will not change. No other health services will be initiated or discontinued. It is proposed that Medicare, TennCare (Medicaid), commercially insured, and private-pay patients will be served by the Applicant, which will be licensed by the Tennessee Department of Health. The estimated project cost is anticipated to be approximately $8,208,743.21, including filing fee.

The anticipated date of filing the application is: October 15, 2012.

The contact person for this project is E. Graham Baker, Jr., Attorney who may be reached at 2021 Richard Jones Road, Suite 350, Nashville, TN 37215, 615/370-3380.

Upon written request by interested parties, a local Fact-Finding public hearing shall be conducted. Written requests for hearing should be sent to:

Health Services and Development Agency
Andrew Jackson Building
500 Deaderick Street, Suite 850
Nashville, Tennessee 37243

The published Letter of Intent must contain the following statement pursuant to T.C.A. § 68-11-1607(c)(1). (A) Any health care institution wishing to oppose a Certificate of Need application must file a written notice with the Health Services and Development Agency no later than fifteen (15) days before the regularly scheduled Health Services and Development Agency meeting at which the application is originally scheduled; and (B) Any other person wishing to oppose the application must file written objection with the Health Services and Development Agency at or prior to the consideration of the application by the Agency.

Legal Notices: 500

stake in the Upper Finley Road right of way; thence along the right of way to the point of beginning.
Street Address: 1680 Upper Finley Road, Dyersburg, Tennessee 38024
Parcel Number: 088-062.00
Current Owner(s) of Property: Michelle Won
The street address of the above described property is believed to be 1680 Upper Finley Road, Dyersburg, Tennessee 38024, but such address is not part of the legal description of the property sold herein and in the event of any discrepancy, the legal description referenced herein shall control.
SALE IS SUBJECT TO TENANT(S) RIGHTS IN POSSESSION.
If applicable, the notice requirements of T.C.A. 35-5-117 have been met.
All right of equity of redemption, statutory and otherwise, and homestead are expressly waived in said Deed of Trust, and the title is believed to be good, but the undersigned will sell and convey only as Substitute Trustee.
If the highest bidder cannot pay the bid within twenty-four (24) hours of the sale, the next highest bidder, at their highest bid, will be deemed the successful bidder.
This property is being sold with the express reservation that the sale is subject to confirmation by the lender or trustee. This sale may be rescinded at any time.
Shapiro & Kirsch, LLP
Substitute Trustee
www.kirschattorneys.com
Law Office of Shapiro & Kirsch, LLP
555 Perkins Road Extended,

turn I promise to make your name known and cause you to be invoked. Say three Our Fathers, three Hail Mary's & Glorias. St. Jude pray for us & all who invoke your aid. Amen. (Publication must be promised) (This Novena has never been known to fail. This Novena must be said for 9 consecutive days).

Lost 550

CAT/COLLIERVILLE: Gray Male Tabby w/ green eyes, last seen 10/02 in Rosewood Plantation area. Call 901-603-1128.

LOST, SMALL, WHITE male Fiest (rat terrier) on 9/16 in Laurelwood area. Has a blk/brn face, lrg blk spot on left side & small scars on left face. no collar/chip. REWARD $$$ 901-647-0250

Found 551

SHIH TZU White with brown markings. 5-10 years old. No collar. Found near Riverdale Rd. & Germantown Rd. Call (901)737-2307.

PLACE YOUR AD BY E-MAIL classad@commercialappeal.com

1,950sf. 1.88ac. Marion School Dist. 870-833-5391 or 901-428-8303

Tipton County Real Estate 671

DRUMMONDS, TN. 3br, 1ba, breezeway w/att. 2-car gar. On 1.3 ac. $85,000. 662-837-7466, 615-352-3285

Realty Wanted/ Exchange 679

WE BUY HOMES, Quick Closing, all conditions. Cash Mid-South Realty, 761-4444

Need To Place An Ad?

Go to www.commercialappeal.com and place your ad online.

Look for the PLACE MY AD on our homepage

cable,w/d, $90-$160wk, $50 dp. 901-864-0655

Southeast Motel- 3466 Lamar, cable $142/wk. $37 daily & up, kit avail. 363-9641

SUMMER/ NATIONAL Furn. rm., ac., W/D. Bus line, $100/wk., $40 dep. SR. Discount. avail. 901-679-6487

Duplex, Townhouse & Condo (Unfurn) 847

BERCLAIR-Kingsbury School 2BR, carpet, CH/A, W&D conn., $450-$450/mo. Leco Realty 272-5028 or 591-0555. LecoRealty.com

Goodlet S Nice 2BR,1ba, all appl w/d con.$415 1st & mo. Reg.$495+Oct spec no dep 685-1976,324-6484

Homes (Furnished) 850

BY-THE-WEEK 1, 2 & 3 BR Homes, as low as $160/wk. util. incl., clean, quiet, friendly, 5 min. to Mohs.- G'Town. Candle-Lite Mobile Estate 8544 Carome Olive Branch, MS 901-521-9366 or 662-895-6474

EMAIL your HELP WANTED AD to classad@commercialappeal.com

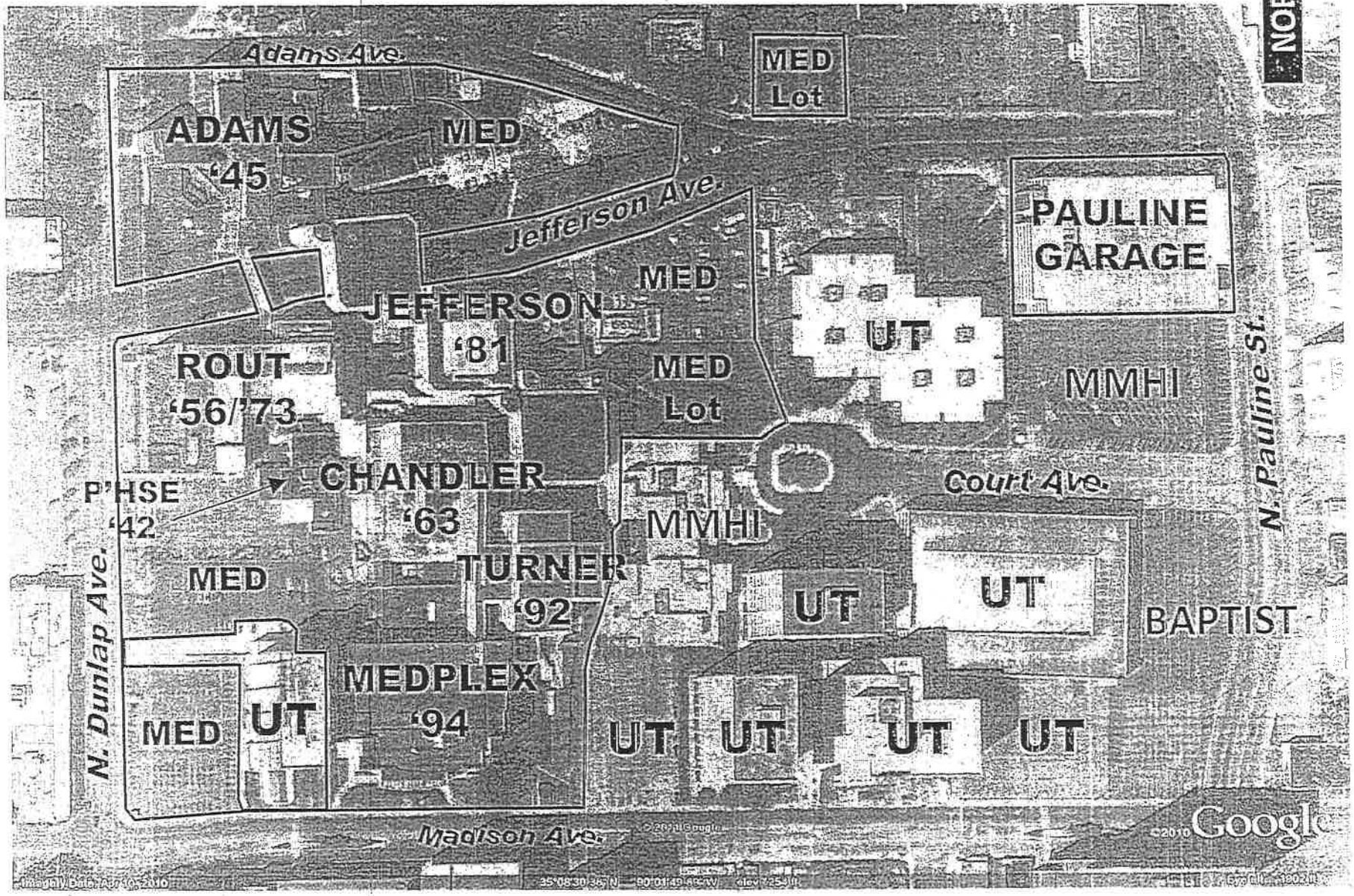
commercialappeal.com hotjobs

If you have something coming to you in unclaimed property by going to commercial appeal.com/ legalnotices

THE COMMERCIAL APPEAL

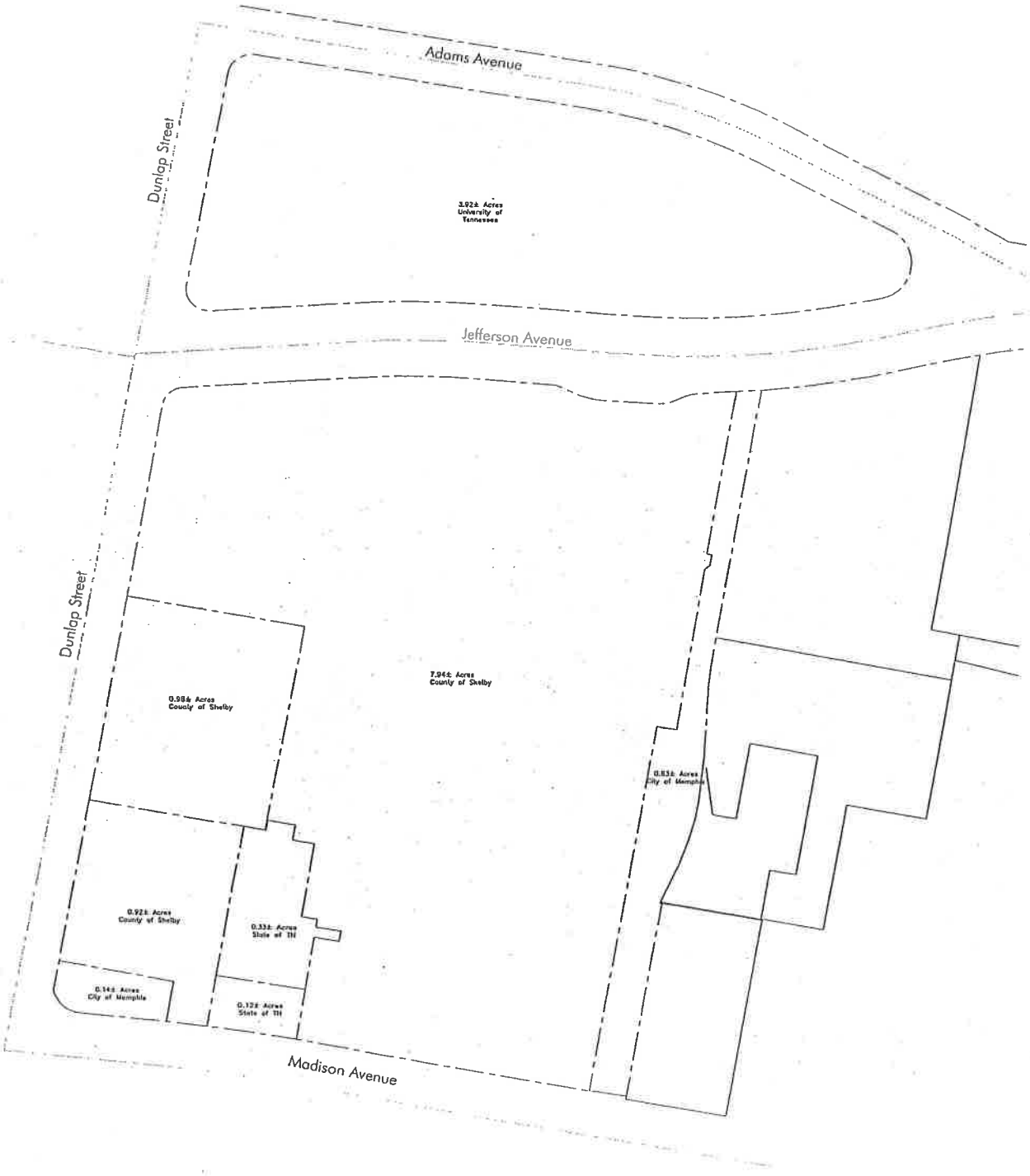
Regional Medical Center at Memphis +/- 18.55Acres

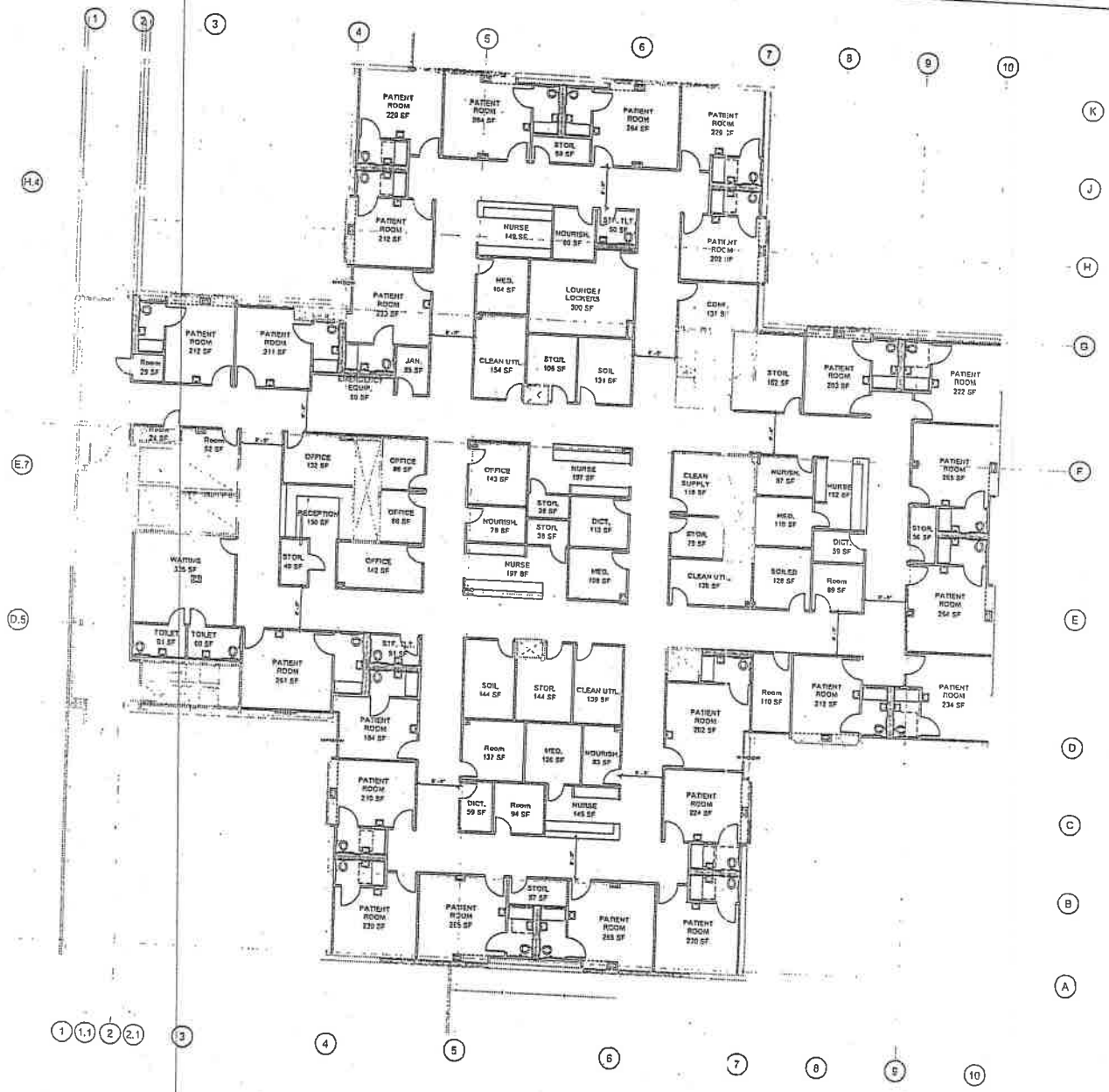
Satellite View



The Regional Medical Center at Memphis
Property Map

Parcel ID #	Description	Acres
018051-00051	Hospital	7.94
018050-00001	Adams Pavilion	3.92
018051-00043	Valet Parking Lot - Dunlap	0.70
018051-00042	Chandler Parking Lot - Dunlap	0.34
018051-00052	Outpatient Center Parking Lot - Dunlap	0.92
018051-00041	Outpatient Center Parking Lot - Dunlap	0.14
018051-00055	ED Parking Lot & Grass Lot - Jefferson	1.73
18051-00040	Hospital Drive	0.63
18063-00002	Pauline Garage	1.81
18049-00009C	Vacant Lot - Adams	0.42
	Total Acreage	18.55


Adams Avenue
Dunlap Street
3.92± Acres
University of
Tennessee
Jefferson Avenue
Dunlap Street
0.98± Acres
County of Shelby
7.94± Acres
County of Shelby
0.83± Acres
City of Memphis
0.92± Acres
County of Shelby
0.33± Acres
State of TN
0.14± Acres
City of Memphis
0.12± Acres
State of TN
Madison Avenue



1 4TH FLOOR PLAN - MED SURG - TURNER TOWER
N.T.S.

AME ARCHITECTS

APM
AMERICAN PHYSICIAN MANAGEMENT

WALL TYPE LEGEND

EXISTING WALL

WALL TO BE DEMOLISHED

NEW WALL

KEY PLAN

SCHEMATIC DESIGN

REGIONAL MEDICAL CENTER AT MEMPHIS

877 JEFFERSON AVE.
MEMPHIS, TN

TURNER TOWER RENOVATION

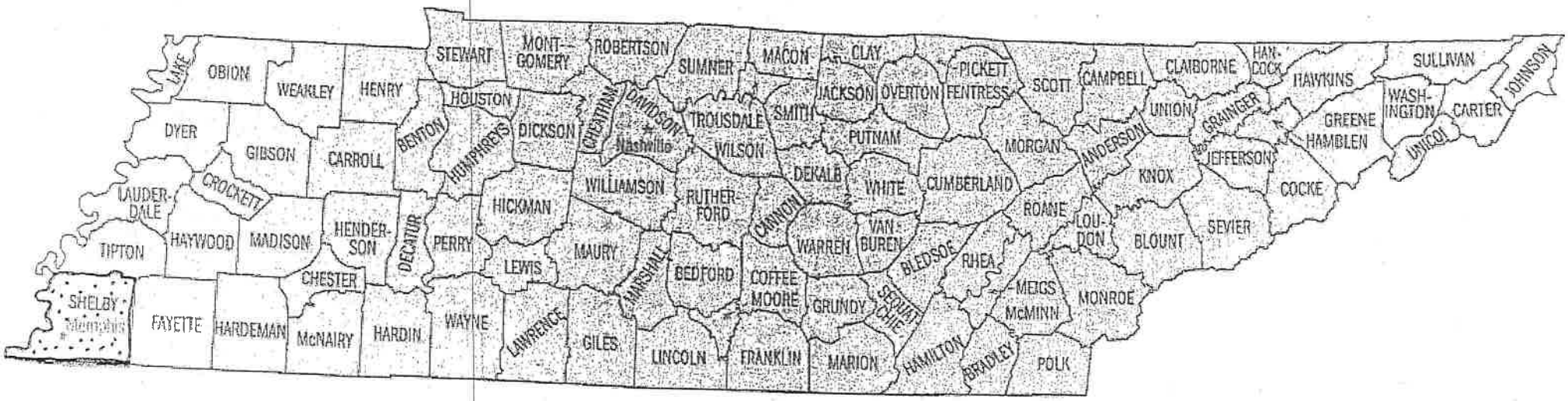
4TH FLOOR PLAN - MED SURG - TURNER TOWER

JD JPW 11000

05/02/12 A205

Attachment B.IV

Tennessee County Map



Attachment C.Need.3

Attachment C.Need.4.A

Shelby County, Tennessee

People QuickFacts	Shelby County	Tennessee
Population, 2011 estimate	935,088	6,403,353
Population, 2010 (April 1) estimates base	927,644	6,346,110
Population, percent change, April 1, 2010 to July 1, 2011	0.8%	0.9%
Population, 2010	927,644	6,346,105
Persons under 5 years, percent, 2011	7.2%	6.3%
Persons under 18 years, percent, 2011	26.1%	23.3%
Persons 65 years and over, percent, 2011	10.4%	13.7%
Female persons, percent, 2011	52.3%	51.3%
White persons, percent, 2011 (a)	43.6%	79.5%
Black persons, percent, 2011 (a)	52.3%	16.9%
American Indian and Alaska Native persons, percent, 2011 (a)	0.4%	0.4%
Asian persons, percent, 2011 (a)	2.4%	1.5%
Native Hawaiian and Other Pacific Islander persons, percent, 2011 (a)	0.1%	0.1%
Persons reporting two or more races, percent, 2011	1.3%	1.6%
Persons of Hispanic or Latino Origin, percent, 2011 (b)	5.8%	4.7%
White persons not Hispanic, percent, 2011	38.6%	75.4%
Living in same house 1 year & over, 2006-2010	81.6%	83.8%
Foreign born persons, percent, 2006-2010	6.0%	4.4%
Language other than English spoken at home, pct age 5+, 2006-2010	8.5%	6.2%
High school graduates, percent of persons age 25+, 2006-2010	84.9%	82.5%
Bachelor's degree or higher, pct of persons age 25+, 2006-2010	27.8%	22.7%
Veterans, 2006-2010	62,382	505,746
Mean travel time to work (minutes), workers age 16+, 2006-2010	22.4	23.9
Housing units, 2010	398,274	2,812,133
Homeownership rate, 2006-2010	61.7%	69.6%
Housing units in multi-unit structures, percent, 2006-2010	27.6%	18.1%
Median value of owner-occupied housing units, 2006-2010	$135,300	$134,100
Households, 2006-2010	340,443	2,443,475
Persons per household, 2006-2010	2.65	2.49
Per capita money income in past 12 months (2010 dollars) 2006-2010	$25,002	$23,722
Median household income 2006-2010	$44,705	$43,314
Persons below poverty level, percent, 2006-2010	19.7%	16.5%

Business QuickFacts	Shelby County	Tennessee
Private nonfarm establishments, 2009	20,262	132,901[1]
Private nonfarm employment, 2009	428,357	2,317,986[1]
Private nonfarm employment, percent change 2000-2009	-10.3%	-3.0%[1]
Nonemployer establishments, 2009	70,282	448,516
Total number of firms, 2007	76,350	545,348
Black-owned firms, percent, 2007	30.9%	8.4%
American Indian- and Alaska Native-owned firms, percent, 2007	0.3%	0.5%
Asian-owned firms, percent, 2007	3.4%	2.0%
Native Hawaiian and Other Pacific Islander-owned firms, percent, 2007	0.1%	0.1%
Hispanic-owned firms, percent, 2007	1.7%	1.6%
Women-owned firms, percent, 2007	30.8%	25.9%
Manufacturers shipments, 2007 ($1000)	17,969,681	140,447,760

Merchant wholesaler sales, 2007 ($1000)	29,636,012	80,116,528
Retail sales, 2007 ($1000)	11,932,863	77,547,291
Retail sales per capita, 2007	$12,971	$12,563
Accommodation and food services sales, 2007 ($1000)	1,787,964	10,626,759
Building permits, 2011	1,400	14,977
Federal spending, 2010	10,393,200	68,865,540[1]

Geography QuickFacts	Shelby County	Tennessee
Land area in square miles, 2010	763.17	41,234.90
Persons per square mile, 2010	1,215.5	153.9
FIPS Code	157	47
Metropolitan or Micropolitan Statistical Area	Memphis, TN-MS-AR Metro Area	

1: Includes data not distributed by county.

(a) Includes persons reporting only one race.
(b) Hispanics may be of any race, so also are included in applicable race categories.

D: Suppressed to avoid disclosure of confidential information
F: Fewer than 100 firms
FN: Footnote on this item for this area in place of data
NA: Not available
S: Suppressed; does not meet publication standards
X: Not applicable
Z: Value greater than zero but less than half unit of measure shown

Source U.S. Census Bureau: State and County QuickFacts. Data derived from Population Estimates, American Community Survey, Census of Population and Housing, State and County Housing Unit Estimates, County Business Patterns, Nonemployer Statistics, Economic Census, Survey of Business Owners, Building Permits, Consolidated Federal Funds Report
Last Revised: Thursday, 07-Jun-2012 13:40:15 EDT

State & County QuickFacts

Tennessee

People QuickFacts	Tennessee	USA
Population, 2011 estimate	6,403,353	311,591,917
Population, 2010	6,346,105	308,745,538
Population, percent change, 2000 to 2010	11.5%	9.7%
Population, 2000	5,689,283	281,421,906
Persons under 5 years, percent, 2010	6.4%	6.5%
Persons under 18 years, percent, 2010	23.6%	24.0%
Persons 65 years and over, percent, 2010	13.4%	13.0%
Female persons, percent, 2010	51.3%	50.8%
White persons, percent, 2010 (a)	77.6%	72.4%
Black persons, percent, 2010 (a)	16.7%	12.6%
American Indian and Alaska Native persons, percent, 2010 (a)	0.3%	0.9%
Asian persons, percent, 2010 (a)	1.4%	4.8%
Native Hawaiian and Other Pacific Islander, percent, 2010 (a)	0.1%	0.2%
Persons reporting two or more races, percent, 2010	1.7%	2.9%
Persons of Hispanic or Latino origin, percent, 2010 (b)	4.6%	16.3%
White persons not Hispanic, percent, 2010	75.6%	63.7%
Living in same house 1 year & over, 2006-2010	83.8%	84.2%
Foreign born persons, percent, 2006-2010	4.4%	12.7%
Language other than English spoken at home, pct age 5+, 2006-2010	6.2%	20.1%
High school graduates, percent of persons age 25+, 2006-2010	82.5%	85.0%
Bachelor's degree or higher, pct of persons age 25+, 2006-2010	22.7%	27.9%
Veterans, 2006-2010	505,746	22,652,496
Mean travel time to work (minutes), workers age 16+, 2006-2010	23.9	25.2
Housing units, 2010	2,812,133	131,704,730
Homeownership rate, 2006-2010	69.6%	66.6%
Housing units in multi-unit structures, percent, 2006-2010	18.1%	25.9%
Median value of owner-occupied housing units, 2006-2010	$134,100	$188,400
Households, 2006-2010	2,443,475	114,235,996
Persons per household, 2006-2010	2.49	2.59
Per capita money income in past 12 months (2010 dollars) 2006-2010	$23,722	$27,334
Median household income 2006-2010	$43,314	$51,914
Persons below poverty level, percent, 2006-2010	16.5%	13.8%

Business QuickFacts	Tennessee	USA
Private nonfarm establishments, 2009	132,901[1]	7,433,465
Private nonfarm employment, 2009	2,317,986[1]	114,509,626

Private nonfarm employment, percent change 2000-2009	-3.0%[1]	0.4%
Nonemployer establishments, 2009	448,516	21,090,761
Total number of firms, 2007	545,348	27,092,908
Black-owned firms, percent, 2007	8.4%	7.1%
American Indian- and Alaska Native-owned firms, percent, 2007	0.5%	0.9%
Asian-owned firms, percent, 2007	2.0%	5.7%
Native Hawaiian and Other Pacific Islander-owned firms, percent, 2007	0.1%	0.1%
Hispanic-owned firms, percent, 2007	1.6%	8.3%
Women-owned firms, percent, 2007	25.9%	28.8%
Manufacturers shipments, 2007 ($1000)	140,447,760	5,338,306,501
Merchant wholesaler sales, 2007 ($1000)	80,116,528	4,174,286,516
Retail sales, 2007 ($1000)	77,547,291	3,917,663,456
Retail sales per capita, 2007	$12,563	$12,990
Accommodation and food services sales, 2007 ($1000)	10,626,759	613,795,732
Building permits, 2010	16,475	604,610
Federal spending, 2009	65,525,306[1]	3,175,336,050[2]

Geography QuickFacts	Tennessee	USA
Land area in square miles, 2010	41,234.90	3,531,905.43
Persons per square mile, 2010	153.9	87.4
FIPS Code	47	

1: Includes data not distributed by county.
2: Includes data not distributed by state.

Population estimates for counties will be available in April, 2012 and for cities in June, 2012.

(a) Includes persons reporting only one race.
(b) Hispanics may be of any race, so also are included in applicable race categories.

D: Suppressed to avoid disclosure of confidential information
F: Fewer than 100 firms
FN: Footnote on this item for this area in place of data
NA: Not available
S: Suppressed; does not meet publication standards
X: Not applicable
Z: Value greater than zero but less than half unit of measure shown

Source U.S. Census Bureau: State and County QuickFacts. Data derived from Population Estimates, American Community Survey, Census of Population and Housing, State and County Housing Unit Estimates, County Business Patterns, Nonemployer Statistics, Economic Census, Survey of Business Owners, Building Permits, Consolidated Federal Funds Report
Last Revised: Tuesday, 17-Jan-2012 16:41:36 EST

Attachment C.Need.4.B

Find Shortage Areas: MUA/P by State and County

Shortage Designation Home

Find Shortage Areas

HPSA & MUA/P by Address

HPSA by State & County

HPSA Eligible for the Medicare Physician Bonus Payment

Criteria:

State: Tennessee
County: Shelby County
ID #: All

Results: 58 records found.

Name	ID#	Type	Score	Designation Date	Update Date
Shelby County					
Shelby Service Area	03249	MUA	56.50	1994/07/12	
CT 0201.00					
CT 0202.10					
CT 0205.12					
Shelby Service Area	03250	MUA	51.00	1994/07/12	
CT 0216.20					
CT 0219.00					
CT 0220.10					
CT 0220.21					
CT 0220.22					
CT 0221.11					
CT 0221.12					
CT 0222.10					
CT 0222.20					
CT 0223.10					
CT 0223.21					
CT 0223.30					
CT 0224.10					
CT 0224.21					
Nw Memphis Service Area	07469	MUA	56.00	2005/04/06	
CT 0002.00					
CT 0003.00					
CT 0004.00					
CT 0005.00					
CT 0006.00					
CT 0007.00					
CT 0008.00					
CT 0009.00					
CT 0010.00					
CT 0011.00					
CT 0012.00					
CT 0013.00					
CT 0014.00					
CT 0015.00					
CT 0017.00					
CT 0018.00					
CT 0019.00					
CT 0020.00					
CT 0021.00					
CT 0022.00					
CT 0023.00					
CT 0024.00					
CT 0025.00					
CT 0027.00					
CT 0028.00					
CT 0030.00					
CT 0036.00					
CT 0089.00					
CT 0090.00					
CT 0099.00					
CT 0100.00					
CT 0101.10					
CT 0101.20					
CT 0102.10					
CT 0102.20					
CT 0103.00					
CT 0205.21					
CT 0205.22					

NEW SEARCH | MODIFY SEARCH CRITERIA

Find Shortage Areas: HPSA by State & County

Shortage Designation Home
Find Shortage Areas
HPSA & MUA/P by Address
HPSA Eligible for the Medicare Physician Bonus Payment
MUA/P by State & County

Criteria:

State: Tennessee
County: Shelby County
ID: All
Date of Last Update: All Dates
HPSA Score (lower limit): 0
Discipline: Primary Medical Care
Metro: All
Status: Designated
Type: All

Results: 113 records found.
(Satellite sites of Comprehensive Health Centers automatically assume the HPSA score of the affiliated grantee. They are not listed separately.)

HPSA Name	ID	Type	FTE	# Short	Score
157 - Shelby County					
Low Income - N.W. Memphis-Frayser	1479994706	Population Group	20	6	15
C.T. 0002.00		Census Tract			
C.T. 0003.00		Census Tract			
C.T. 0004.00		Census Tract			
C.T. 0005.00		Census Tract			
C.T. 0006.00		Census Tract			
C.T. 0007.00		Census Tract			
C.T. 0008.00		Census Tract			
C.T. 0009.00		Census Tract			
C.T. 0010.00		Census Tract			
C.T. 0011.00		Census Tract			
C.T. 0012.00		Census Tract			
C.T. 0013.00		Census Tract			
C.T. 0014.00		Census Tract			
C.T. 0015.00		Census Tract			
C.T. 0017.00		Census Tract			
C.T. 0018.00		Census Tract			
C.T. 0019.00		Census Tract			
C.T. 0020.00		Census Tract			
C.T. 0021.00		Census Tract			
C.T. 0022.00		Census Tract			
C.T. 0023.00		Census Tract			
C.T. 0024.00		Census Tract			
C.T. 0025.00		Census Tract			
C.T. 0027.00		Census Tract			
C.T. 0028.00		Census Tract			
C.T. 0030.00		Census Tract			
C.T. 0036.00		Census Tract			
C.T. 0089.00		Census Tract			
C.T. 0090.00		Census Tract			
C.T. 0099.00		Census Tract			
C.T. 0100.00		Census Tract			
C.T. 0101.10		Census Tract			
C.T. 0101.20		Census Tract			
C.T. 0102.10		Census Tract			
C.T. 0102.20		Census Tract			
C.T. 0103.00		Census Tract			
C.T. 0205.11		Census Tract			
C.T. 0205.12		Census Tract			
C.T. 0205.21		Census Tract			
C.T. 0205.22	1479994707	Population Group	40	2	8
Low Income - Southwest Memphis		Census Tract			
C.T. 0037.00		Census Tract			
C.T. 0038.00		Census Tract			
C.T. 0039.00		Census Tract			
C.T. 0040.00		Census Tract			
C.T. 0041.00		Census Tract			
C.T. 0044.00		Census Tract			
C.T. 0045.00		Census Tract			
C.T. 0046.00		Census Tract			
C.T. 0047.00		Census Tract			
C.T. 0048.00		Census Tract			
C.T. 0049.00		Census Tract			
C.T. 0050.00		Census Tract			
C.T. 0051.00		Census Tract			
C.T. 0053.00		Census Tract			
C.T. 0054.00		Census Tract			
C.T. 0055.00		Census Tract			
C.T. 0056.00		Census Tract			
C.T. 0057.00		Census Tract			
C.T. 0058.00		Census Tract			
C.T. 0059.00		Census Tract			
C.T. 0060.00		Census Tract			
C.T. 0061.00		Census Tract			
C.T. 0062.00		Census Tract			
C.T. 0063.00		Census Tract			
C.T. 0064.00		Census Tract			
C.T. 0065.00		Census Tract			
C.T. 0066.00		Census Tract			
C.T. 0067.00		Census Tract			
C.T. 0068.00		Census Tract			

C.T. 0069.00		Census Tract			
C.T. 0070.00		Census Tract			
C.T. 0073.00		Census Tract			
C.T. 0074.00		Census Tract			
C.T. 0075.00		Census Tract			
C.T. 0078.10		Census Tract			
C.T. 0078.21		Census Tract			
C.T. 0078.22		Census Tract			
C.T. 0079.00		Census Tract			
C.T. 0080.00		Census Tract			
C.T. 0081.10		Census Tract			
C.T. 0081.20		Census Tract			
C.T. 0082.00		Census Tract			
C.T. 0084.00		Census Tract			
C.T. 0104.10		Census Tract			
C.T. 0104.20		Census Tract			
C.T. 0105.00		Census Tract			
C.T. 0106.10		Census Tract			
C.T. 0106.20		Census Tract			
C.T. 0106.30		Census Tract			
C.T. 0108.10		Census Tract			
C.T. 0109.00		Census Tract			
C.T. 0110.10		Census Tract			
C.T. 0110.20		Census Tract			
C.T. 0217.31		Census Tract			
C.T. 0220.10		Census Tract			
C.T. 0220.21		Census Tract			
C.T. 0220.22		Census Tract			
C.T. 0221.11		Census Tract			
C.T. 0221.12		Census Tract			
C.T. 0222.10		Census Tract			
C.T. 0222.20		Census Tract			
C.T. 0223.10		Census Tract			
C.T. 0223.21		Census Tract			
C.T. 0223.22		Census Tract			
C.T. 0223.30		Census Tract			
C.T. 0224.10		Census Tract			
C.T. 0224.21		Census Tract			
C.T. 0224.22		Census Tract			
Federal Correctional Institution - Memphis	1479994730	Correctional Facility	0	1	12
Christ Community Health Services, Inc.	1479994793	Comprehensive Health Center		0	17
Memphis Health Center, Inc.	1479994795	Comprehensive Health Center		0	17

NEW SEARCH | MODIFY SEARCH CRITERIA

NOTE: On Thursday November 3, 2011, the list of designated HPSAs was updated to reflect the publication of the Federal Register Notice with the list of designated HPSAs as of September 1, 2011. HPSAs that were designated after September 1, 2011 are considered designated even though they are not on the federal register listing; HPSAs that have been placed in "proposed for withdrawal" or "no new data" status since September 1, 2011 will remain in that status until the publication of the next federal register notice. If there are any questions about the status of a particular HPSA or area, we recommend that you contact the state primary care office in your state; a listing can be obtained at http://bhpr.hrsa.gov/shortage/hpsas/primarycareoffices.html.

Inpatient Utilization
Shelby County Hospitals
2008-2011

2008

Hospitals	I/P Days	# of Beds	Occ. Rate
Baptist Memorial Hospital	170,137	709	65.7%
Baptist Memorial Hospital - Collierville	10,663	81	36.1%
Baptist Memorial Hospital for Women	40,368	140	79.0%
Baptist Memorial Restorative Care Hospital	9,414	30	86.0%
Baptist Rehabilitation - Germantown	13,381	68	53.9%
Community Behavioral Health	7,511	50	41.2%
Delta Medical Center	34,707	243	39.1%
HealthSouth Rehabilitation Hospital	0	80	0.0%
HealthSouth Rehabilitation Hospital - Memphis North	11,991	40	82.1%
Lakeside Behavioral Health System	60,699	305	54.5%
Lebonheur Children's Medical Center	58,499	225	71.2%
Memphis Mental Health Institute	22,763	111	56.2%
Methodist Extended Care Hospital, Inc	10,446	36	79.5%
Methodist Healthcare - Memphis Hospitals	123,950	669	50.8%
Methodist Hospital - Germantown	74,335	209	97.4%
Methodist Hospital - North	53,925	260	56.8%
Methodist Hospital - South	34,373	200	47.1%
Saint Francis Hospital	122,788	519	64.8%
Saint Francis Hospital - Bartlett	30,075	100	82.4%
Saint Jude Children's Research Hospital	14,380	62	63.5%
Select Specialty Hospital - Memphis	12,303	39	86.4%
The Regional Medical Center at Memphis	121,879	631	52.9%
Total	1,038,587	4,807	59.2%

Source: 2008 JARs, Schedule F - Beds & G - Utilization ("0" = Not Reported on JAR)

2009

Hospitals	I/P Days	# of Beds	Occ. Rate
Baptist Memorial Hospital	169,911	706	65.9%
Baptist Memorial Hospital - Collierville	10,706	81	36.2%
Baptist Memorial Hospital for Women	37,498	140	73.4%
Baptist Memorial Restorative Care Hospital	9,331	30	85.2%
Baptist Rehabilitation - Germantown	12,963	68	52.2%
Community Behavioral Health	7,101	50	38.9%
Delta Medical Center	33,856	243	38.2%
HealthSouth Rehabilitation Hospital	0	80	0.0%
HealthSouth Rehabilitation Hospital - Memphis North	12,307	40	84.3%
Lakeside Behavioral Health System	59,900	305	53.8%
Lebonheur Children's Medical Center	60,865	225	74.1%
Memphis Mental Health Institute	23,702	111	58.5%
Methodist Extended Care Hospital, Inc	11,757	36	89.5%
Methodist Healthcare - Memphis Hospitals	123,000	669	50.4%
Methodist Hospital - Germantown	71,280	209	93.4%
Methodist Hospital - North	53,679	260	56.6%
Methodist Hospital - South	36,740	200	50.3%
Saint Francis Hospital	110,084	519	58.1%
Saint Francis Hospital - Bartlett	31,903	100	87.4%
Saint Jude Children's Research Hospital	14,812	78	52.0%
Select Specialty Hospital - Memphis	13,473	39	94.6%
The Regional Medical Center at Memphis	112,774	631	49.0%
Total	1,017,642	4,820	57.8%

Source: 2009 JARs, Schedule F - Beds & G - Utilization ("0" = Not Reported on JAR)

Inpatient Utilization
Shelby County Hospitals
2008-2011

2010

Hospitals	I/P Days	# of Beds	Occ. Rate
Baptist Memorial Hospital	170,084	706	66.0%
Baptist Memorial Hospital - Collierville	10,454	81	35.4%
Baptist Memorial Hospital for Women	34,595	140	67.7%
Baptist Memorial Restorative Care Hospital	8,015	30	73.2%
Baptist Rehabilitation - Germantown	10,290	68	41.5%
Community Behavioral Health	6,726	57	32.3%
Delta Medical Center	34,384	243	38.8%
HealthSouth Rehabilitation Hospital	19,751	80	67.6%
HealthSouth Rehabilitation Hospital - Memphis North	13,114	40	89.8%
Lakeside Behavioral Health System	60,240	305	54.1%
Lebonheur Children's Medical Center	55,767	255	59.9%
Memphis Mental Health Institute	21,889	110	54.5%
Methodist Extended Care Hospital, Inc	11,379	36	86.6%
Methodist Healthcare - Memphis Hospitals	125,892	617	55.9%
Methodist Hospital - Germantown	76,571	309	67.9%
Methodist Hospital - North	57,534	246	64.1%
Methodist Hospital - South	33,566	156	58.9%
Saint Francis Hospital	97,823	519	51.6%
Saint Francis Hospital - Bartlett	29,378	100	80.5%
Saint Jude Children's Research Hospital	15,721	78	55.2%
Select Specialty Hospital - Memphis	12,680	39	89.1%
The Regional Medical Center at Memphis	101,189	631	43.9%
Total	1,007,042	4,846	56.9%

Source: 2010 JARs, Schedule F - Beds & G - Utilization

2011

Hospitals	I/P Days	# of Beds	Occ. Rate
Baptist Memorial Hospital	175,949	706	68.3%
Baptist Memorial Hospital - Collierville	10,097	81	34.2%
Baptist Memorial Hospital for Women	35,874	140	70.2%
Baptist Memorial Restorative Care Hospital	8,004	30	73.1%
Baptist Rehabilitation - Germantown	8,819	50	48.3%
Community Behavioral Health	8,014	50	43.9%
Delta Medical Center	33,560	243	37.8%
HealthSouth Rehabilitation Hospital	19,433	80	66.6%
HealthSouth Rehabilitation Hospital - Memphis North	13,666	40	93.6%
Lakeside Behavioral Health System	63,142	305	56.7%
Lebonheur Children's Medical Center	56,884	255	61.1%
Memphis Mental Health Institute	20,615	111	50.9%
Methodist Extended Care Hospital, Inc	11,337	36	86.3%
Methodist Healthcare - Memphis Hospitals	124,109	617	55.1%
Methodist Hospital - Germantown	84,737	309	75.1%
Methodist Hospital - North	58,820	246	65.5%
Methodist Hospital - South	33,495	156	58.8%
Saint Francis Hospital	92,384	519	48.8%
Saint Francis Hospital - Bartlett	32,124	100	88.0%
Saint Jude Children's Research Hospital	15,035	78	52.8%
Select Specialty Hospital - Memphis	13,470	39	94.6%
The Regional Medical Center at Memphis	96,438	631	41.9%
Total	1,016,006	4,822	57.7%

Source: 2011 Provisional JARs, Schedule F - Beds & G - Utilization

October 15, 2012

J. Richard Wagers, Jr.
Senior Executive Vice President & CFO
Regional Medical Center at Memphis
877 Jefferson Avenue
Memphis, Tennessee 38103

Re: Memphis Long Term Acute Care Hospital

Dear Mr. Wagers,

As Project Manager for the relocation of the referenced LTACH, I have reviewed the costs set aside for both the construction contingency and the equipment contingency, and believe that $788,165 is a sufficient estimate to complete this hospital relocation. Further, this estimate has been prepared taking into account that the project will be completed to provide a physical environment compliant with all applicable federal, state and local construction codes, standards, specifications, and requirements, and the physical environment will conform to applicable federal standards, manufacturer's specifications and licensing agencies' requirements including the new 2010 AIA Guidelines for Design and Construction of Health Care Facilities.

Sincerely,

Warren N. Goodwin, FAIA
President & CEO

c: E. Graham Baker, Jr., Esq.

100 Winner's Circle
Suite 440
Brentwood, TN 37027
www.apmproject.com

Regional Medical Center at Memphis

October 12, 2012

Melanie Hill, Executive Director
Health Services and Development Agency
500 Deaderick Street, Suite 850
Nashville, Tennessee 37243

Re: Memphis Long Term Care Specialty Hospital, owned by
Memphis Long Term Care Specialty Hospital, LLC, owned by
Shelby County Health Care Corporation, d/b/a, The Regional Medical Center at Memphis LTACH Relocation Application

Mrs. Hill,

I am the Chief Financial Officer for The Regional Medical Center at Memphis. Our latest financials, submitted with our Certificate of Need application, indicate that we have sufficient cash reserves to fund this $1,206,593.21 project. While the project totals over $8 million, the balance of the project cost includes fair market value of the building, land and equipment on site.

This is to notify you that our cash reserves are both available and dedicated to this project.

Please contact me if you have any questions.

Sincerely,

J. Richard Wagers, Jr.
Senior Executive Vice President & CFO

877 Jefferson Avenue Memphis, TN 38103 901.545.7100

KPMG LLP
Morgan Keegan Tower
Suite 900
50 North Front Street
Memphis, TN 38103-1194

Independent Auditors' Report

The Board of Directors
Shelby County Health Care Corporation:

We have audited the accompanying balance sheets of Shelby County Health Care Corporation, a component unit of Shelby County, Tennessee (d/b/a The Regional Medical Center at Memphis – "The Med") as of June 30, 2011 and 2010, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of The Med's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Med's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Shelby County Health Care Corporation as of June 30, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated November 1, 2011 on our consideration of The Med's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Med has not presented management's discussion and analysis that U.S. generally accepted accounting principles require to supplement, although not to be part of, the basic financial statements.

KPMG

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise The Med's basic financial statements. The supplementary information included in Schedules 1, 2 and 3 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information, except for that portion marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

November 1, 2011

SHELBY COUNTY HEALTH CARE CORPORATION

Balance Sheets

June 30, 2011 and 2010

Assets	2011	2010
Current assets:		
Cash and cash equivalents	$ 46,817,462	53,576,684
Investments	69,854,051	3,922,517
Patient accounts receivable, net of allowances for uncollectible accounts of $88,469,000 in 2011 and $96,148,000 in 2010	29,399,243	20,275,330
Other receivables	8,386,984	10,002,085
Other current assets	3,786,723	4,357,522
Total current assets	158,244,463	92,134,138
Restricted investments	5,840,419	5,235,876
Capital assets, net	53,815,538	53,074,615
Investments in joint ventures	—	441,193
Total assets	$ 217,900,420	150,885,822
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	$ 6,852,445	6,966,127
Accrued expenses and other current liabilities	27,094,079	28,609,681
Current installments of amounts payable to Shelby County	—	212,802
Total current liabilities	33,946,524	35,788,610
Amounts payable to Shelby County, excluding current installments	—	464,311
Accrued professional and general liability costs	6,500,000	11,082,000
Net postemployment benefit obligation	912,000	935,000
Total liabilities	41,358,524	48,269,921
Net assets:		
Invested in capital assets, net of related debt	53,815,538	52,397,502
Restricted for:		
Capital assets	3,301,588	4,372,870
Indigent care	687,422	651,783
Unrestricted	118,737,348	45,193,746
Total net assets	176,541,896	102,615,901
Commitments and contingencies		
Total liabilities and net assets	$ 217,900,420	150,885,822

See accompanying notes to basic financial statements.

SHELBY COUNTY HEALTH CARE CORPORATION

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2011 and 2010

	2011	2010
Operating revenues:		
Net patient service revenue (including additional incremental reimbursement from various state agencies for participation in TennCare/Medicaid programs of approximately $97,917,000 in 2011 and $40,228,000 in 2010)	$ 328,120,318	251,036,699
Other revenue	10,217,937	9,944,314
Total operating revenues	338,338,255	260,981,013
Operating expenses:		
Salaries and benefits	135,198,480	131,437,995
Supplies and services	62,032,558	58,655,297
Physician and professional fees	33,124,144	33,003,305
Purchased medical services	13,129,867	13,266,244
Plant operations	12,994,559	11,208,352
Insurance	7,899,082	6,946,579
Administrative and general	14,883,262	14,627,901
Community services	2,080,755	382,640
Depreciation and amortization	11,028,768	11,754,357
Total operating expenses	292,371,475	281,282,670
Operating gain (loss)	45,966,780	(20,301,657)
Nonoperating revenues (expenses):		
Interest expense	(104,172)	(364,280)
Investment income	1,175,199	455,390
Appropriations from Shelby County	26,816,000	30,616,666
Other	72,188	(6,398,238)
Total nonoperating revenues, net	27,959,215	24,309,538
Increase in net assets	73,925,995	4,007,881
Capital appropriations from City of Memphis	—	2,000,000
Net assets, beginning of year	102,615,901	96,608,020
Net assets, end of year	$ 176,541,896	102,615,901

See accompanying notes to basic financial statements.

SHELBY COUNTY HEALTH CARE CORPORATION

Statements of Cash Flows

Years ended June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Receipts from and on behalf of patients and third-party payors	$ 320,374,535	251,903,847
Other cash receipts	10,673,732	10,942,031
Payments to suppliers	(149,011,390)	(138,848,211)
Payments to employees and related benefits	(136,731,550)	(131,859,586)
Net cash provided by (used in) operating activities	45,305,327	(7,861,919)
Cash flows from noncapital financing activity:		
Appropriations received from Shelby County	26,816,000	30,616,666
Net cash provided by noncapital financing activity	26,816,000	30,616,666
Cash flows from capital and related financing activities:		
Capital appropriations received from City of Memphis	—	2,000,000
Repayment of capital lease obligation	—	(1,591,384)
Repayment of amounts payable to Shelby County	(677,113)	(2,655,805)
Capital expenditures	(11,770,222)	(6,021,156)
Proceeds from sale of capital assets	16,521	2,410
Interest payments	(1,586,248)	(759,150)
Net cash used in capital and related financing activities	(14,017,062)	(9,025,085)
Cash flows from investing activities:		
Purchases of investments	(80,853,568)	(6,521,348)
Proceeds from sale of investments	13,248,929	5,376,696
Distributions received from joint venture	497,392	1,998,807
Investment income proceeds	2,243,760	390,027
Net cash (used in) provided by investing activities	(64,863,487)	1,244,182
Net (decrease) increase in cash and cash equivalents	(6,759,222)	14,973,844
Cash and cash equivalents, beginning of year	53,576,684	38,602,840
Cash and cash equivalents, end of year	$ 46,817,462	53,576,684

(Continued)

SHELBY COUNTY HEALTH CARE CORPORATION

Statements of Cash Flows

Years ended June 30, 2011 and 2010

	2011	2010
Reconciliation of operating gain (loss) to net cash provided by (used in) operating activities:		
Operating gain (loss)	$ 45,966,780	(20,301,657)
Adjustment to reconcile operating gain (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	11,028,768	11,754,357
Changes in operating assets and liabilities:		
Patients accounts receivable, net	(9,123,913)	2,062,927
Other receivables	1,615,101	(117,593)
Other current assets	570,799	1,006,663
Other assets	—	36,829
Accounts payable	(113,682)	(13,465,530)
Accrued expenses and other current liabilities	(33,526)	9,995,085
Accrued professional and general liability costs	(4,582,000)	952,000
Net postemployment benefit obligation	(23,000)	215,000
Net cash provided by (used in) operating activities	$ 45,305,327	(7,861,919)
Supplemental schedule of noncash investing and financing activities:		
Net increase in the fair value of investments	$ 412,172	63,895
Equity in loss of joint ventures	441,193	—
Impairment of investment in joint venture	—	(4,652,667)
Gain (loss) on capital asset disposals	15,991	(1,745,571)

See accompanying notes to basic financial statements.

(1) Organization and Summary of Significant Accounting Policies

Shelby County Health Care Corporation (d/b/a The Regional Medical Center at Memphis – "The Med") was incorporated on June 15, 1981, with the approval of the Board of County Commissioners of Shelby County, Tennessee (the County). The Med is a broad continuum healthcare provider that operates facilities owned by the County under a long-term lease. The lease arrangement effectively provided for the transfer of title associated with operating fixed assets and the long-term lease (for a nominal amount) of related real property. The lease expires in 2031.

The Med is a component unit of the County as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. The Med's component unit relationship to the County is principally due to financial accountability as defined in GASB Statement No. 14. The Med is operated by a 13-member board of directors, all of whom are appointed by the Mayor of the County and approved by the County Commission.

The Regional Medical Center Foundation (The Med Foundation) is a component unit of The Med principally due to The Med's financial accountability for The Med Foundation as defined in GASB Statement No. 14. The Med Foundation is operated by a board of directors, all of whom are appointed by The Med's board. The Med Foundation is a blended component unit of The Med because it provides services entirely to The Med. The Med Foundation issues separate audited financial statements, which can be obtained by writing to The Regional Medical Center Foundation, 877 Jefferson Avenue, Memphis, Tennessee 38103 or calling 901-545-7482.

GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, requires a management's discussion and analysis (MD&A) section providing an analysis of The Med's overall financial position and results of operations; however, The Med has chosen to omit the MD&A from these accompanying financial statements.

The significant accounting policies used by The Med in preparing and presenting its financial statements follow:

(a) Presentation

The financial statements include the accounts of The Med. All material intercompany accounts and transactions have been eliminated.

(b) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires that management make estimates and assumptions affecting the reported amounts of assets, liabilities, revenues, and expenses, as well as disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Significant items subject to estimates and assumptions include the determination of the allowances for contractual adjustments and uncollectible accounts, reserves for professional and general liability claims, reserves for employee healthcare claims, net postretirement benefit cost and obligation, and estimated third-party payor settlements.

(Continued)

In addition, laws and regulations governing the Medicare, TennCare, and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates related to these programs will change by a material amount in the near term.

(c) Enterprise Fund Accounting

The Med's financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Pursuant to and as permitted by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, The Med has elected to not apply the provisions of any otherwise relevant pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989. The Med applies the provisions of all relevant pronouncements of the GASB and pronouncements of the FASB issued prior to November 30, 1989 that do not conflict with GASB pronouncements.

(d) Cash Equivalents

The Med considers investments in highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

(e) Investments and Investment Income

Investments are carried at fair value, principally based on quoted market prices. Investment income (including realized and unrealized gains and losses) from investments is reported as nonoperating revenue.

(f) Inventories

Inventories, consisting principally of medical supplies and pharmaceuticals, are stated at the lower of cost (first-in, first-out method) or replacement market.

(g) Investments in Joint Ventures

Investments in joint ventures consist of The Med's equity interests in joint ventures as measured by its ownership interest if The Med has an ongoing financial interest in or ongoing financial responsibility for the joint venture. The investments are initially recorded at cost and are subsequently adjusted for additional contributions, distributions, undistributed earnings and losses, and impairment losses.

(h) Capital Assets

Capital assets are recorded at cost, if purchased, or at fair value at the date of donation. Depreciation is provided over the useful life of each class of depreciable asset using the straight-line method. Maintenance and repairs are charged to operations. Major renewals and betterments are capitalized. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and the gain or loss, if any, is included in nonoperating revenues (expenses) in the accompanying statements of revenues, expenses, and changes in net assets.

The Med capitalizes interest cost on qualified construction expenditures, net of income earned on related trusteed assets, as a component of the cost of related projects. No such interest costs were capitalized in 2011 or 2010.

All capital assets other than land are depreciated using the following lives:

Land improvements	5 to 25 years
Buildings and improvements	10 to 40 years
Fixed equipment	5 to 25 years
Movable equipment	3 to 20 years
Software	3 years

(i) Impairment of Capital Assets

Capital assets are reviewed for impairment when service utility has declined significantly and unexpectedly. If such assets are no longer used, they are reported at the lower of carrying value or fair value. If such assets will continue to be used, the impairment loss is measured using the method that best reflects the diminished service utility of the capital asset. No charge related to impairment matters was required during 2011 or 2010.

(j) Compensated Absences

The Med's employees accumulate vacation, holiday, and sick leave at varying rates depending upon their years of continuous service and their payroll classification, subject to maximum limitations. Upon termination of employment, employees are paid all unused accrued vacation and holiday time at their regular rate of pay up to a designated maximum number of days. Since the employees' vacation and holiday time both accumulates and vests, an accrual for this liability is included in accrued expenses and other current liabilities in the accompanying balance sheets. An accrual is recognized for unused sick leave expected to be paid to employees eligible to retire.

(k) Net Assets

Net assets of The Med are classified into the following components:

- *Net assets invested in capital assets, net of related debt*, consist of capital assets net of accumulated depreciation and reduced by outstanding balances of any borrowings used to finance the purchase or construction of those assets.
- *Restricted net assets* include those net assets with limits on their use that are externally imposed (by creditors, grantors, contributors, or the laws and regulations of other governments).
- *Unrestricted net assets* are remaining net assets that do not meet the definition of invested in capital assets, net of related debt, or restricted.

When The Med has both restricted and unrestricted resources available to finance a particular program, it is The Med's policy to use restricted resources before unrestricted resources.

(Continued)

The Med Foundation historically and to-date does not maintain donor-restricted endowment funds, or any Board-designated endowments. The Med Foundation's Board has interpreted Tennessee's State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. In all material respects, income from The Med Foundation's donor-restricted endowment funds is itself restricted to specific donor-directed purposes, and is therefore accounted for within restricted net assets until expended in accordance with the donor's wishes. The Med Foundation oversees individual donor-restricted endowment funds to ensure that the fair value of the original gift is preserved.

(l) Statement of Revenues, Expenses, and Changes in Net Assets

For purposes of presentation, transactions deemed by management to be ongoing, major, or central to the provision of healthcare services, other than financing costs, are reported as operating revenues and operating expenses. Other transactions, such as interest expense, investment income, appropriations from Shelby County, gain (loss) on disposal of capital assets, and equity in earnings and impairment losses of joint ventures, are reported as nonoperating revenues and expenses.

(m) Net Patient Service Revenue

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. Changes in estimates related to prior cost reporting periods resulted in an increase in net patient service revenue of approximately $613,000 and $642,000 in 2011 and 2010, respectively.

(n) Charity Care

The Med provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because The Med does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

(o) Income Taxes

The Med is a not-for-profit corporation organized by the approval of the Board of County Commissioners of the County and qualifies as a tax-exempt entity under Internal Revenue Code (IRC) Section 501(a) as organizations described in IRC Section 501(c)(3), and therefore related income is generally not subject to federal or state income taxes, except for tax on income from activities unrelated to its exempt purpose as described in IRC Section 512(a). Thus, no provision for income taxes has been recorded in the accompanying financial statements.

(p) Appropriations

The County has historically appropriated funds annually to The Med to partially offset the cost of medical care for indigent residents of the County. Appropriations for indigent residents from the County for 2011 and 2010 were approximately $26.8 million and $30.6 million, respectively. Appropriations from the County are reported as nonoperating revenue in the accompanying statements of revenues, expenses, and changes in net assets. During 2010, The Med received $2 million of capital appropriations from the City of Memphis. Capital appropriations are reported as such in the statements of revenues, expenses, and changes in net assets. No capital appropriations were received from the City of Memphis for the 2011 fiscal year.

(2). Deposits and Investments

The composition of cash and cash equivalents follows:

		2011	2010
Cash	$	11,754,726	12,678,543
Money market funds		35,062,736	40,898,141
	$	46,817,462	53,576,684

The Med's and The Med Foundation's bank balances that are considered to be exposed to custodial credit risk at June 30, 2011 and 2010 follow:

		2011	2010
Uninsured, uncollateralized, or collateralized by securities held by the pledging institution or by its trust department or agent in other than The Med's name	$	35,750,935	40,933,252

Investments and restricted investments include amounts held by both The Med and The Med Foundation.

The composition of investments and restricted investments follows:

		2011	2010
U.S. agencies	$	50,027,209	4,431,673
Certificates of deposit		6,683,600	480,000
Corporate bonds		16,007,992	2,061,327
Discount notes		208,323	—
U.S. government funds		434,413	804,608
Common stock		1,963,341	1,345,997
Accrued interest		369,592	34,788
	$	75,694,470	9,158,393

Custodial credit risk is the risk that, in the event of a bank failure, an organization's deposits may not be returned. Neither The Med nor The Med Foundation has a deposit policy for custodial credit risk.

(Continued)

At June 30, 2011, The Med and The Med Foundation had investments in debt securities with the following maturities:

		Investment and restricted investment maturities (in years)			
	Fair value	Less than 6 months	6 months to 1 year	1 – 5 years	5+ years
U.S. agencies	$ 50,027,209	1,604,820	203,096	48,219,293	—
Corporate bonds	16,007,992	1,114,484	1,639,353	13,145,279	108,876
Discount notes	208,323	109,716	—	98,607	—
	$ 66,243,524	2,829,020	1,842,449	61,463,179	108,876

At June 30, 2010, The Med and The Med Foundation had investments in debt securities with the following maturities:

		Investment and restricted investment maturities (in years)			
	Fair value	Less than 6 months	6 months to 1 year	1 – 5 years	5+ years
U.S. agencies	$ 4,431,673	710,548	530,018	3,089,970	101,137
Corporate bonds	2,061,327	50,866	92,881	1,587,788	329,792
	$ 6,493,000	761,414	622,899	4,677,758	430,929

At June 30, 2011 and 2010, The Med Foundation had one investment totaling $434,413 and $778,387, respectively, in the SEI Daily Income Trust Government Fund that represents 5% or more of its total investments.

(Continued)

At June 30, 2011, The Med's and The Med Foundation's corporate bonds, collectively, had the following credit ratings:

Fair value	Credit rating
$ 163,054	BBB-
315,156	BBB
549,105	BBB+
405,384	A-
4,379,082	A
5,310,862	A+
4,263,703	AA-
60,533	AA+
561,113	AAA
$ 16,007,992	

At June 30, 2010, The Med's and The Med Foundation's corporate bonds, collectively, had the following credit ratings:

Fair value	Credit rating
$ 48,582	BB+
267,188	BBB-
159,449	BBB
456,229	BBB+
268,681	A-
569,756	A
25,596	AA-
61,038	AA+
204,808	AAA
$ 2,061,327	

The Med's and The Med Foundation's investments in discount notes at June 30, 2011 were not rated.

As of June 30, 2011, The Med's investment strategy, per its investment policy, is to provide liquidity to fund ongoing operating needs and to act as a repository for both the accumulation of cash reserves needed to cushion economic down cycles and to provide cash earmarked for strategic needs.

The portfolio objectives of The Med, listed in order of importance, are as follows:

1. Preserve principal.
2. Maintain sufficient liquidity to meet forecasted cash needs.
3. Maintain a diversified portfolio in order to minimize credit risk.

(Continued)

4. Maximize yield subject to the above criteria.

The authorized investments are as follows:

1. *Commercial Paper* – Any commercial paper issued by a domestic corporation with a maturity of 270 or less days that carries the highest rating by a recognized investor service, preferably Standard and Poor's and Moody's. Commercial paper shall not represent more than 50% of the portfolio.

2. *U.S. Treasury Securities* – U.S. Treasury notes, bills, and bonds with remaining maturities not to exceed one year. There is no upper limit restriction as to the maximum dollar amount or percentage of the portfolio that may be invested in U.S. Treasury securities.

3. *Bank Obligations* – Any certificate of deposit, time deposit, Eurodollar CD issued by a foreign branch of a U.S. bank, bankers' acceptance, bank note, or letter of credit issued by a (U.S.) bank possessing at least the second highest long-term debt rating from at least two recognized investor services, preferably Standard and Poor's and Moody's. Aggregate exposure to any bank may not exceed 20% of the portfolio. If aforementioned is not achieved, provision can be met by 100% collateralization by U.S. government securities.

4. *Repurchase Agreements* – Any Repurchase Agreement purchased from one of the top 25 U.S. banks or one of the primary dealers regulated by the Federal Reserve that is at least 102% collateralized by U.S. government obligations. Repurchase Agreements may not represent more than 20% of the portfolio.

5. *Funds* – Any open-end money market fund regulated by the U.S. government under Investment Company Act Rule 2a-7. Any investment fund regulated by a Registered Investment Advisor under Rule 3c-7. Such fund investment guidelines must state that "the fund will seek to maintain a $1 per share net asset value." The Company's investment in any one fund may not exceed 10% of the assets of the fund into which it is invested.

6. *United States Government Obligations* – Any obligation issued or backed (federal agencies) by the U.S. government with a maturity of 24 months or less. No more than 25% may be invested in obligations of any one federal agency.

The Finance Committee of the Board of Directors meets regularly to review asset allocation, investment selection, portfolio performance, and overall adherence to the investment policy guidelines.

As of June 30, 2011, The Med Foundation utilized one investment manager. This manager is required to make investments in adherence to The Med Foundation's current investment policy and objectives.

The Med Foundation follows an investment strategy focused on maximizing total return (i.e., aggregate return from capital appreciation and dividend and interest income) while adhering to certain restrictions designed to promote a conservative portfolio.

Specifically, the primary objective of The Med Foundation investment management strategy is to maintain an investment portfolio designed to generate a high level of current income with above-average stability.

Guidelines for investments and cash equivalents for The Med Foundation follow:

1. The Med Foundation's assets may be invested only in investment grade bonds rated Baa (or equivalent) or better as determined by Moody's Investor Service.
2. The overall market-weighted quality rating of the bond portfolio shall be no lower than A.
3. The Med Foundation's assets may be invested only in commercial paper rated P-2 (or equivalent) or better by Moody's Investor Service.
4. The market-weighted maturity of the base portfolio shall be no longer than 10 years.
5. Quality of the equity securities will be governed by the federal Employee Retirement and Income Security Act (ERISA), the Tennessee guidelines for investing trust funds, and the "prudent man rule."
6. Conservative option strategies may be used, with a goal of increasing the stability of the portfolio.

The Med Foundation limits investments in common stock to 40% of its investment portfolio. The remainder of the portfolio is to be invested in fixed income investments.

Investment income is comprised of the following:

	2011	2010
Dividend and interest income	$ 763,027	391,495
Net increase in the fair value of investments	412,172	63,895
	$ 1,175,199	455,390

(3) Business and Credit Concentrations

The Med grants credit to patients, substantially all of whom are local area residents. The Med generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g. Medicare, Medicaid, Blue Cross, and commercial insurance policies).

(Continued)

The mix of receivables from patients and third-party payors follows, before application of related valuation allowances:

	2011	2010
Commercial insurance	35%	35%
Patients	27	28
Medicaid/TennCare	24	26
Medicare	14	11
	100%	100%

(4) Other Receivables

The composition of other receivables follows:

	2011	2010
Accounts receivable from University of Tennessee Center for Health Services	$ 1,452,436	1,233,612
Accounts receivable from the County	108,984	285,264
Accounts receivable from the State of Tennessee	4,950,606	6,328,736
Grants receivable	956,230	639,187
Other	918,728	1,515,286
	$ 8,386,984	10,002,085

(5) Other Current Assets

The composition of other current assets follows:

	2011	2010
Inventories	$ 3,322,659	3,812,504
Prepaid expenses	464,064	545,018
	$ 3,786,723	4,357,522

(Continued)

(6) Capital Assets

Capital assets and related activity consist of the following:

	Balances at July 1, 2010	Additions	Retirements	Transfers	Balances at June 30, 2011
Capital assets not being depreciated:					
Construction in progress	$ —	4,608,122	—	(3,311,045)	1,297,077
Total book value of capital assets not being depreciated	—	4,608,122	—	(3,311,045)	1,297,077
Capital assets being depreciated:					
Land improvements	5,981,266	186,355	—	—	6,167,621
Buildings	65,236,701	—	—	—	65,236,701
Fixed equipment	105,021,720	2,413,817	—	18,587	107,454,124
Movable equipment	111,960,358	4,347,649	(498,002)	2,963,835	118,773,840
Software	13,836,343	214,279	—	328,623	14,379,245
Total book value of capital assets being depreciated	302,036,388	7,162,100	(498,002)	3,311,045	312,011,531
Less accumulated depreciation for:					
Land improvements	(5,234,433)	(108,373)	—	—	(5,342,806)
Buildings	(53,941,911)	(929,544)	—	—	(54,871,455)
Fixed equipment	(83,453,969)	(3,298,206)	—	—	(86,752,175)
Movable equipment	(93,375,806)	(6,119,399)	497,471	—	(98,997,734)
Software	(12,955,654)	(573,246)	—	—	(13,528,900)
Total accumulated depreciation	(248,961,773)	(11,028,768)	497,471	—	(259,493,070)
Capital assets being depreciated, net	53,074,615	(3,866,668)	(531)	3,311,045	52,518,461
Capital assets, net	$ 53,074,615	741,454	(531)	—	53,815,538

(Continued)

	Balances at July 1, 2009	Additions	Retirements	Transfers	Balances at June 30, 2010
Capital assets not being depreciated:					
Construction in progress	$ 1,735,031	583,542	(1,727,581)	(590,992)	—
Total book value of capital assets not being depreciated	1,735,031	583,542	(1,727,581)	(590,992)	—
Capital assets being depreciated:					
Land improvements	5,979,700	1,566	—	—	5,981,266
Buildings	65,236,701	—	—	—	65,236,701
Fixed equipment	104,615,645	406,075	—	—	105,021,720
Movable equipment	106,909,674	4,704,851	(245,159)	590,992	111,960,358
Software	13,511,221	325,122	—	—	13,836,343
Total book value of capital assets being depreciated	296,252,941	5,437,614	(245,159)	590,992	302,036,388
Less accumulated depreciation for:					
Land improvements	(5,116,611)	(117,822)	—	—	(5,234,433)
Buildings	(52,878,738)	(1,063,173)	—	—	(53,941,911)
Fixed equipment	(80,027,698)	(3,426,271)	—	—	(83,453,969)
Movable equipment	(87,332,417)	(6,268,148)	224,759	—	(93,375,806)
Software	(12,076,711)	(878,943)	—	—	(12,955,654)
Total accumulated depreciation	(237,432,175)	(11,754,357)	224,759	—	(248,961,773)
Capital assets being depreciated, net	58,820,766	(6,316,743)	(20,400)	590,992	53,074,615
Capital assets, net	$ 60,555,797	(5,733,201)	(1,747,981)	—	53,074,615

(7) Investments in Joint Ventures

The composition of investments in joint ventures follows:

	2011	2010
Investment in Memphis Managed Care Corporation (MMCC)	$ —	441,193

The Med was a 50% owner in MMCC, a TennCare managed care organization, with which The Med contracted to provide services to MMCC enrollees. MMCC is subject to certain regulatory minimum capital requirements and, in that respect, The Med had guaranteed capital deficiencies funding for MMCC up to The Med's proportionate ownership interest in MMCC. No accrual for this obligation was required at either June 30, 2011 or 2010. During fiscal 2008, The Med and University of Tennessee Medical Group entered into a contract to sell the assets of MMCC to a publicly held managed care company and The Med received cash distributions of $497,392 in fiscal 2011 and $1,998,807 in fiscal 2010 from the liquidation of the assets of MMCC. A gain of approximately $56,000 was recognized in 2011 related to the final liquidation of assets.

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Memphis Medical Center Air Ambulance Service, Inc. (MMCAAS) is a nonmember not-for-profit corporation organized to operate an air ambulance service for the transportation of medical supplies, equipment, and injured or sick persons. MMCAAS was organized by The Med and two other local healthcare systems. The Med appoints one-third of the board members of MMCAAS and is entitled to one-third of the net assets of MMCAAS in the event of dissolution. During fiscal 2010, management evaluated its investment in MMCAAS and determined that realization of the Med's investment in MMCAAS at dissolution was not probable. Accordingly, management considered the investment impaired and recorded a valuation allowance of approximately $4,653,000 in fiscal 2010, which is included in other nonoperating expenses in the 2010 statement of revenues, expenses, and changes in net assets.

Separate audited financial statements for MMCC and MMCAAS are available and can be obtained by writing to the management of The Med at 877 Jefferson Avenue, Memphis, Tennessee 38103 or by calling 901-545-7482.

(8) Accrued Expenses and Other Current Liabilities

The composition of accrued expenses and other current liabilities follows:

	2011	2010
Due to third-party payors	$ 11,304,000	12,028,000
Compensated absences	6,521,686	6,844,120
Deferred grant revenue	16,558	476,156
Accrued payroll and withholdings	5,341,835	3,509,329
Accrued employee healthcare claims	1,510,000	1,770,000
Accrued interest	—	1,482,076
Current professional and general liability costs	2,400,000	2,500,000
	$ 27,094,079	28,609,681

(9) Amounts Payable to the County

The County has allocated proceeds from certain prior bond issuances to assist in funding The Med's acquisition of capital assets. A summary of related amounts payable to the County follows:

	2011	2010
Installment notes payable in annual principal payments, fully repaid in June 2011 with original maturity date of May 2013, plus interest of 5.0% to 5.6% due annually	$ —	677,113
Less current maturities	—	212,802
	$ —	464,311

(Continued)

A schedule of the changes in The Med's amounts payable to the County for 2011 and 2010 follows:

Description	Date of issuance	Balances at July 1, 2010	Additions	Payments	Balances at June 30, 2011	Due within one year
Notes payable - Shelby County	5/1/1993	$ 677,113	—	(677,113)	—	—

Description	Date of issuance	Balances at July 1, 2009	Additions	Payments	Balances at June 30, 2010	Due within one year
Notes payable - Shelby County	2/1/1988	$ 539,335	—	(539,335)	—	—
Notes payable - Shelby County	5/1/1993	945,095	—	(267,982)	677,113	212,802
Notes payable - Shelby County	12/1/2002	1,848,488	—	(1,848,488)	—	—
		$ 3,332,918	—	(2,655,805)	677,113	212,802

Interest paid was approximately $1,586,000 and $759,000 in 2011 and 2010, respectively.

(10) Net Patient Service Revenue

The Med has agreements with governmental and other third-party payors that provide for reimbursement to The Med at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between billings at established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with major third-party payors follows:

- *Medicare* – Substantially all acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Certain types of exempt services and other defined payments related to Medicare beneficiaries are paid based on cost reimbursement or other retroactive-determination methodologies. The Med is paid for retroactively determined items at tentative rates with final settlement determined after submission of annual cost reports by The Med and audits thereof by the Medicare fiscal intermediary.

  The Med's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Med's Medicare cost reports have been audited and settled by the Medicare fiscal intermediary through June 30, 2006. Revenue from the Medicare program accounted for approximately 16% and 17% of The Med's net patient service revenue for the years ended June 30, 2011 and 2010, respectively.

- *TennCare* – Under the TennCare program, patients traditionally covered by the State of Tennessee Medicaid program and certain members of the uninsured population enroll in managed care organizations that have contracted with the State of Tennessee to ensure healthcare coverage to their enrollees. The Med contracts with the managed care organizations to receive reimbursement for providing services to these patients. Payment arrangements with these managed care organizations consist primarily of prospectively determined rates per discharge, discounts from established charges, or prospectively determined per diem rates. Revenue from the TennCare program accounted for approximately 27% and 32% of The Med's net patient service revenue for the years ended June 30, 2011 and 2010, respectively.

(Continued)

The Med has historically received incremental reimbursement in the form of Essential Access payments through its participation in the TennCare Program. Amounts received by The Med under this program were approximately $90.2 million and $34.2 million in 2011 and 2010, respectively. These amounts have been recognized as reductions in related contractual adjustments in the accompanying statements of revenues, expenses, and changes in net assets. There can be no assurance that The Med will continue to qualify for future participation in this program or that the program will not ultimately be discontinued or materially modified. Any material reduction in such funds has a correspondingly material adverse effect on The Med's operations.

- *Arkansas Medicaid* – Substantially all inpatient and outpatient services rendered to Arkansas Medicaid program beneficiaries are paid under prospective reimbursement methodologies established by the State of Arkansas. Certain other reimbursement items (principally inpatient nursery services and medical education costs) are based upon cost reimbursement methodologies. The Med is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by The Med and audits thereof by the Arkansas Department of Health and Human Services (DHHS). The Med's Arkansas Medicaid cost reports have been audited and settled by the Arkansas DHHS through June 30, 2005. Revenue from the State of Arkansas Medicaid program accounted for approximately 1% of The Med's net patient service revenue for both the years ended June 30, 2011 and 2010.

  The Med has historically received incremental reimbursement in the form of Upper Payment Limit (UPL) and Disproportionate Share payments through its participation in the State of Arkansas Medicaid program. The net benefit for The Med associated with this program, totaling approximately $3.4 million and $2.4 million for the years ended June 30, 2011 and 2010, respectively, has been recognized as a reduction in related contractual adjustments in the accompanying statements of revenues, expenses, and changes in net assets. There can be no assurance that The Med will continue to qualify for future participation in this program or that the program will not ultimately be discontinued or materially modified.

- *Mississippi Medicaid* – Inpatient and outpatient services rendered to Mississippi Medicaid program beneficiaries are generally paid based upon prospective reimbursement methodologies established by the State of Mississippi. Revenue from the State of Mississippi Medicaid program accounted for approximately 2% of The Med's net patient service revenue for both the years ended June 30, 2011 and 2010.

  The Med has historically received incremental reimbursement in the form of Disproportionate Share and additional appropriation payments through its participation in the State of Mississippi Medicaid program. The net benefit for The Med associated with this program, totaling approximately $4.4 million and $3.6 million for the years ended June 30, 2011 and 2010, respectively, has been recognized as a reduction in related contractual adjustments in the accompanying statements of revenues, expenses, and changes in net assets.

- *Other* – The Med has also entered into other reimbursement arrangements providing for payment methodologies, which include prospectively determined rates per discharge, per diem amounts, and discounts from established charges.

(Continued)

The composition of net patient service revenue follows:

	2011	2010
Gross patient service revenue	$ 872,788,467	835,005,580
Less provision for contractual and other adjustments	465,982,310	478,088,787
Less provision for bad debts	78,685,839	105,880,094
Net patient service revenue	$ 328,120,318	251,036,699

The composition of incremental reimbursement from various state agencies for participation in TennCare/Medicaid programs follows:

	2011	2010
TennCare Essential Access	$ 90,176,479	34,229,596
Arkansas UPL/Disproportionate Share	3,374,913	2,436,043
Mississippi Disproportionate Share	4,365,373	3,562,019
Total payments	$ 97,916,765	40,227,658

In the spring of 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively, the Health Care Acts) were signed into law by President Obama. The impact of the Health Care Acts is complicated and difficult to predict, but The Med anticipates its reimbursement in the future will be affected by major elements of the Health Care Acts designed to (1) increase insurance coverage, (2) change provider and payor behavior, and (3) encourage alternative delivery models. Many healthcare reform variables remain unknown and are, among other things, dependent on implementation by federal and state governments and reactions by providers, payors, employers, and individuals. The Med continues to monitor developments in healthcare reform and participates actively in contemplating and designing new programs that are encouraged and/or required by the Health Care Acts.

The Health Information Technology for Economic and Clinical Health (HITECH) Act was enacted as part of the American Recovery and Reinvestment Act of 2009 and signed into law in February 2009. In the context of the HITECH Act, The Med must implement a certified Electronic Health Record (EHR) in an effort to promote the adoption of "meaningful use" of health information technology (HIT). The HITECH Act includes significant monetary incentives and payment penalties meant to encourage the adoption of EHR technology. The Med anticipates that its current efforts at implementing an enterprise-wide EHR will enable its compliance with the Meaningful Use objectives mandated in the HITECH legislation.

(11) Charity Care

The Med maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. Charges foregone, based on established rates, were approximately $257.0 million and $250.7 million in 2011 and 2010, respectively. In 2008, the Med implemented processes to better identify and record its

(Continued)

charity care, including a discount from standard charges for uninsured patients. Such discount is included in the charges forgone, as The Med does not pursue collection and totaled approximately $119.0 million and $113.2 million in 2011 and 2010, respectively.

(12) Retirement Plans

(a) Defined Benefit Plan

The Med contributes to the Shelby County Retirement System (the Retirement System), a cost-sharing single-employer defined benefit public employee retirement system (PERS) established by Shelby County, Tennessee. The Retirement System is administered by a board, the majority of whose members are nominated by the Shelby County Mayor, subject to approval by the Shelby County Board of Commissioners. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Shelby County Retirement System, Suite 950, 160 North Main, Memphis, Tennessee 38103 or calling 901-545-3570.

Shelby County provides office space and certain administrative services at no cost to the Retirement System. All other costs to administer the plan are paid from plan earnings.

Substantially all full-time and permanent part-time employees of Shelby County (including The Med and Shelby County's other component units), other than the Shelby County Board of Education employees, employees who have elected to be covered by Social Security, employees designated as Comprehensive Employment Training Act employees after July 1, 1979, and certain employees of The Med are required, as a condition of employment, to participate in the Retirement System.

The Retirement System consists of three plans (Plans A, B, and C). In 1990, Plans A and B were merged into one reporting entity, whereby total combined assets of the merged plans are available for payment of benefits to participants of either of the two previously existing plans. In 2005, Plan C was added and merged with Plans A and B for funding purposes. While the plans were merged, the Retirement System has retained the membership criteria of the previous plans, which are as follows:

- Plan C, a contributory cost-sharing multiple-employer defined benefit pension plan for employees who are also eligible for Plan A,
- Plan B, a contributory cost-sharing multiple-employer defined benefit pension plan for employees hired prior to December 1, 1978, and
- Plan A, a noncontributory cost-sharing multiple-employer defined benefit pension plan for employees hired on or after December 1, 1978, and those employees that elected to transfer to Plan A from Plan B before January 1, 1981.

The Shelby County Board of Commissioners establishes the Retirement System's benefit provisions. Once a person becomes a participant, that person will continue to participate as long as he or she is an employee of Shelby County or The Med. The Retirement System provides retirement, as well as survivor and disability defined benefits.

The Retirement System's funding policy for employee contribution requirements is established by the Board of Administration of the Retirement System (the Board). The Shelby County Board of Commissioners establishes the Retirement System's funding policy for employer contribution requirements. For fiscal years 2011, 2010, and 2009, the employer contribution requirements were based on the actuarially determined contribution rates, which were 9.21%, 7.25%, and 5.91%, respectively.

The actuarially determined contribution rate was calculated using a projected unit credit service pro rata cost method for Plan A, Plan B, and Plan C participants.

For fiscal years 2011, 2010, and 2009, the following contributions were made to the defined benefit plans:

		2011	2010	2009
The Med's contributions:				
Plan A	$	317,039	495,711	343,155
Plan B		164	375	283
Plan C		134,580	224,122	53,188
Employee contributions:				
Plan B		89	213	167
Plan C		48,938	119,831	83,842

The contributions as a percentage of earned compensation were the same as those for the Retirement System. The Med contributed 100% of its required contributions in 2011, 2010, and 2009.

(b) Defined Contribution Plan

Effective July 1, 1985, The Med established, under the authority of its Board of Directors, The Regional Medical Center at Memphis Retirement Investment Plan, a defined contribution pension plan covering employees 21 years of age and older who have completed one year of service, as defined, and are not participating in any other pension program to which The Med makes contributions. The plan provides for employee contributions of between 2% and 6% of compensation and for equal matching contributions made by The Med. Participants are immediately vested in their contributions plus actual earnings thereon. Participants vest 20% in the employers matching contributions after two years of service, 50% after three years, 75% after four years, and 100% after five years. Forfeitures are returned to The Med to reduce future matching contributions. For the defined contribution plan, The Med contributed approximately $2.1 million to the plan for the year ended 2010. Defined contribution plan participants contributed approximately $2.8 million to the plan for the year ended 2010. The defined contribution plan ceased accepting contributions on September 30, 2009; therefore, there were no contributions by The Med or participants for the year ended June 30, 2011.

Effective October 1, 2009, The Med established, under the authority of its Board of Directors, The Regional Medical Center at Memphis 403(b) Retirement Plan, a defined contribution pension plan

(Continued)

covering employees 21 years of age and older who have completed one year of service. The plan provides for a 50% employer match on employee contributions up to 6% of employee compensation. Participants are immediately vested in their contributions plus actual earnings thereon. Participants vest 20% in the employers matching contributions after two years of service, 50% after three years, 75% after four years, and 100% after five years. Forfeitures remain in the plan for the benefit of other participants. The Med contributed $1.1 million to the 403(b) plan for both the years ended June 30, 2011 and 2010. 403(b) plan participants contributed approximately $2.8 million and $2.6 million to the 403(b) plan for the years ended June 30, 2011 and 2010, respectively.

Effective December 2010, The Med established, under the authority of its Board of Directors, The Regional Medical Center at Memphis Nonqualified Supplemental Retirement Plan (Supplemental Retirement Plan). The Supplemental Retirement Plan was formed under Section 457(f) of the IRC of 1986, and management believes that it complies with all provisions applicable to a nonqualified deferred compensation plan under IRC Section 409A. Plan participants contributed approximately $235,000 to the plan for the year ended June 30, 2011.

(13) Postretirement Benefit Plan

Regional Medical Center Healthcare Benefit Plan (the Plan) is a single-employer defined benefit healthcare plan sponsored and administered by The Med. The Plan provides medical and life insurance benefits to eligible retirees and their spouses. The Med's Board of Directors is authorized to establish and amend all provisions. The Med does not issue a publicly available financial report that includes financial statements and required supplementary information for the Plan.

During fiscal year 2010, The Med's Board of Directors approved a plan amendment which eliminated medical coverage for those employees who did not have 15 years of service as of December 31, 2009 and eliminated life insurance coverage for those employees retiring January 1, 2010 or later.

(a) Funding Policy

The contribution requirements of employees and the Plan are established and may be amended by The Med's Board of Directors. Monthly contributions are required by retirees who are eligible for coverage. The Med pays for costs in excess of required retiree contributions. These contributions are assumed to increase based on future medical plan cost increases. For fiscal 2011 and 2010, The Med contributed approximately $1,171,000 and $1,116,000, respectively, net of retiree contributions, to the Plan. Plan members receiving benefits contributed approximately $304,000 in fiscal 2011 and $432,000 in fiscal 2010 through their required contributions. The following table summarizes the monthly contribution rates for the year beginning July 1, 2009:

	Single	Family
Pre-Medicare	$ 1,343	1,498
Pre-Medicare Eligible	475	287

(Continued)

(b) Annual OPEB Cost and Net OPEB Obligation

The Med's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of 30 years. The following table shows the components of The Med's annual OPEB cost for fiscal 2011 and 2010, the amounts actually contributed to the Plan, and changes in The Med's net OPEB obligation:

		2011	2010
Annual required contributions and annual OPEB cost	$	1,148,234	1,330,635
Contributions made		1,171,234	1,115,635
(Decrease) increase in net OPEB obligation		(23,000)	215,000
Net OPEB obligation, beginning of year		935,000	720,000
Net OPEB obligation, end of year	$	912,000	935,000

(c) Three-Year Trend Information

Fiscal year ended		Annual OPEB cost	Percentage of annual OPEB cost contributed		Net OPEB obligation
6/30/11	$	1,148,234	102%	$	912,000
6/30/10		1,330,635	84%		935,000
6/30/09		1,831,095	87%		720,000

(d) Funded Status and Funding Progress – Required Supplementary Information

As of July 1, 2010, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was $24,469,273 resulting in an unfunded actuarial accrued liability (UAAL) of $24,469,273.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, as presented below as required supplementary information, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

(e) Schedule of Funding Progress – Required Supplementary Information

Analysis of the Plan's funding status follows:

Actuarial valuation date	Actuarial value of plan assets	Actuarial accrued liability (AAL)	Plan assets less than AAL	Funded ratio	Covered payroll	AAL as of a% of covered payroll
7/1/2010	$ —	24,469,273	24,469,273	0.0%	$ 21,995,253	111.0%
7/1/2009	—	24,769,964	24,769,964	0.0%	67,042,048	36.9%
7/1/2008	—	25,656,247	25,656,247	0.0%	73,447,453	34.9%

(f) Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2010 actuarial valuation, the projected unit credit actuarial method was used. The actuarial assumptions included a 3% investment rate of return, which is a long-term rate of return on general account assets, and an annual inflation rate and annual healthcare cost trend rate of 8.4%, reducing each year until it reaches an annual rate of 4.5% in 2027. The UAAL is being amortized, using a level percent of pay method, over a 30-year period under the Projected Unit Credit Method.

(14) Transactions with University of Tennessee Center for Health Services

The Med contracts with University of Tennessee Center for Health Services (UTCHS) and University of Tennessee Medical Group (UTMG) to provide, among other things, The Med's house staff, professional supervision of certain ancillary departments and professional care for indigent patients. The Med also provides its facilities as a teaching hospital for UTCHS.

Operating expenses include approximately $40.0 million in 2011 and $40.2 million in 2010 for all professional and other services provided by UTCHS/UTMG.

(15) Risk Management

The Med has a self-insurance program for professional and general liability risks, both with respect to claims incurred after the effective date of the program and claims incurred but not reported prior to that date. The Med has not acquired any excess coverage for its self-insurance because The Med is afforded sovereign immunity in accordance with applicable statutes. Presently, sovereign immunity limits losses to $300,000 per claim. The Med has recorded an accrual for self-insurance losses totaling approximately $8.9 million and $13.6 million at June 30, 2011 and 2010, respectively.

Incurred losses identified through The Med's incident reporting system and incurred but not reported losses are accrued based on estimates that incorporate The Med's current inventory of reported claims and

historical experience, as well as considerations such as the nature of each claim or incident, relevant trend factors, and advice from consulting actuaries.

The following is a summary of changes in The Med's self-insurance liability for professional and general liability costs for fiscal 2011 and 2010:

		2011	2010
Balance at July 1	$	13,582,000	12,880,000
Provision for claims reported and claims incurred but not reported		5,338,000	5,302,000
Claims paid		(10,020,000)	(4,600,000)
		8,900,000	13,582,000
Amounts classified as current liabilities		(2,400,000)	(2,500,000)
Balance at June 30	$	6,500,000	11,082,000

Like many other businesses, The Med is exposed to various risks of loss related to theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illness; and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. Claims settled through June 30, 2011 have not exceeded this commercial coverage in any of the three preceding years.

The following is a summary of changes in The Med's self-insurance liability for employee health coverage (included in accrued expenses and other current liabilities in the accompanying balance sheets) for fiscal 2011 and 2010:

		2011	2010
Balance at July 1	$	1,770,000	1,762,000
Claims reported and claims incurred but not reported		10,206,014	10,623,050
Claims paid		(10,466,014)	(10,615,050)
Balance at June 30	$	1,510,000	1,770,000

(16) Commitments

The Med has outstanding service contracts for management services, equipment maintenance, and blood supply services. Estimated future payments under the contracts follow:

2012	$	4,179,592
2013		1,200,840
2014		1,031,706
	$	6,412,138

(Continued)

Expense under these contracts and other contracts was approximately $9.1 million and $9.9 million for the years ended June 30, 2011 and 2010, respectively.

(17) Leases

The Med had a capital lease obligation with a vendor for clinical equipment with an original cost of $1,850,000. The obligation was paid off during fiscal 2010.

A schedule of changes in The Med's capital lease obligation follows:

Description	Date of lease	Balance July 1, 2009	Additions	Payments	Balance June 30, 2010	Due within one year
Omnicell, Inc.	10/1/2008	$ 1,591,384	—	(1,591,384)	—	—

The Med has entered into noncancelable operating leases for certain buildings and equipment. Rental expense for all operating leases was approximately $4.8 million and $5.0 million for the years ended June 30, 2011 and 2010, respectively. The future minimum payments under noncancelable operating leases as of June 30, 2011 follow:

2012	$ 739,596
2013	677,029
2014	363,639
2015	66,189
	$ 1,846,453

(18) Current Economic Environment

The U.S. economy continues to suffer in many respects from ongoing characteristics associated with the downturn of the past several years. Management at The Med monitors economic conditions closely, both with respect to potential impacts on the healthcare provider industry and from a more general business perspective. While The Med was able to achieve certain objectives of importance in the current economic environment, management recognizes that economic conditions may continue to impact The Med in a number of ways, including (but not limited to) uncertainties associated with U.S. financial system reform and rising self-pay patient volumes and corresponding increases in uncompensated care.

Additionally, the general healthcare industry environment is increasingly uncertain, especially with respect to the impacts of the federal healthcare reform legislation which was passed in the spring of 2010. Potential impacts of ongoing healthcare industry transformation include, but are not limited to:

- Significant (and potentially unprecedented) capital investment in healthcare information technology (HCIT);

(Continued)

- Continuing volatility in the state and federal government reimbursement programs;
- Lack of clarity related to the health benefit exchange framework mandated by reform legislation, including important open questions regarding exchange reimbursement levels, changes in combined state/federal disproportionate share payments, and impact on the healthcare "demand curve" as the previously uninsured enter the insurance system;
- Effective management of multiple major regulatory mandates, including achievement of meaningful use of HCIT and the transition to ICD-10;
- Significant potential business model changes throughout the healthcare industry, including within the healthcare commercial payor industry.

The business of healthcare in the current economic, legislative and regulatory environment is volatile. Any of the above factors, along with changes in appropriations from the County and City of Memphis and others both currently in existence and which may or may not arise in the future, could have a material adverse impact on The Med's financial position and operating results.

Schedule 1

SHELBY COUNTY HEALTH CARE CORPORATION

Combining Schedule - Balance Sheet

June 30, 2011

Assets	Shelby County Health Care Corporation	The Regional Medical Center at Memphis Foundation	Combined
Current assets:			
Cash and cash equivalents	$ 46,779,628	37,834	46,817,462
Investments	69,854,051	—	69,854,051
Patient accounts receivable, net	29,399,243	—	29,399,243
Other receivables	8,381,809	5,175	8,386,984
Other current assets	3,786,723	—	3,786,723
Total current assets	158,201,454	43,009	158,244,463
Restricted investments	—	5,840,419	5,840,419
Capital assets, net	53,815,538	—	53,815,538
Total assets	$ 212,016,992	5,883,428	217,900,420
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	$ 6,852,445	—	6,852,445
Accrued expenses and other current liabilities	27,091,145	2,934	27,094,079
Total current liabilities	33,943,590	2,934	33,946,524
Accrued professional and general liability costs	6,500,000	—	6,500,000
Net postemployment benefit obligation	912,000	—	912,000
Total liabilities	41,355,590	2,934	41,358,524
Net assets:			
Invested in capital assets, net of related debt	53,815,538	—	53,815,538
Restricted for:			
Capital assets	—	3,301,588	3,301,588
Indigent care	—	687,422	687,422
Unrestricted	116,845,864	1,891,484	118,737,348
Total net assets	170,661,402	5,880,494	176,541,896
Commitments and contingencies			
Total liabilities and net assets	$ 212,016,992	5,883,428	217,900,420

See accompanying independent auditors' report.

Schedule 2

SHELBY COUNTY HEALTH CARE CORPORATION

Combining Schedule - Statement of Revenues, Expenses and Changes in Net Assets

Year ended June 30, 2011

	Shelby County Health Care Corporation	The Regional Medical Center at Memphis Foundation	Combined
Operating revenues:			
Net patient service revenue	$ 328,120,318	—	328,120,318
Other revenue	9,279,344	938,593	10,217,937
Total operating revenues	337,399,662	938,593	338,338,255
Operating expenses:			
Salaries and benefits	135,198,480	—	135,198,480
Supplies and services	62,032,558	—	62,032,558
Physician and professional fees	33,124,144	—	33,124,144
Purchased medical services	13,129,867	—	13,129,867
Plant operations	12,994,559	—	12,994,559
Insurance	7,899,082	—	7,899,082
Administrative and general	14,883,262	—	14,883,262
Community services	—	2,080,755	2,080,755
Depreciation and amortization	11,028,768	—	11,028,768
Total operating expenses	290,290,720	2,080,755	292,371,475
Operating gain (loss)	47,108,942	(1,142,162)	45,966,780
Nonoperating revenues (expenses):			
Interest expense	(104,172)	—	(104,172)
Investment income	539,679	635,520	1,175,199
Appropriations from Shelby County	26,816,000	—	26,816,000
Other	72,188	—	72,188
Total nonoperating revenues, net	27,323,695	635,520	27,959,215
Increase (decrease) in net assets	74,432,637	(506,642)	73,925,995
Net assets, beginning of year	96,228,765	6,387,136	102,615,901
Net assets, end of year	$ 170,661,402	5,880,494	176,541,896

See accompanying independent auditors' report.

Schedule 3

SHELBY COUNTY HEALTH CARE CORPORATION
(A Component Unit of Shelby County, Tennessee)

Roster of Management Officials and Board Members

June 30, 2011
Unaudited

Management Officials

Reginald W. Coopwood, M.D., President and CEO

Fred Boyd, SPHR, Senior Vice President, Human Resources

Pam Castleman, MSN, Senior Vice President/Chief Nursing Officer

Carl Getto, M.D., Executive Vice President/Chief Medical Officer

Tammie Ritchey, CFRE, Vice President of Development/Foundation Executive Director

Robert Sumter, Ph.D., Executive Vice President/COO

Tish Towns, FACHE, Senior Vice President, External Relations

Rick Wagers, Senior Executive Vice President/CFO

Monica N. Wharton, Senior Vice President/Chief Legal Counsel

Board Members

Phil Shannon

Keith Norman

Lee H. Askew

Pamela Brown

James Freeman, M.D.

Brenda Hardy, M.D.

Scott McCormick

Anthony D. McDuffie

Max Ostner

Heidi Shafer

Anthony Tate

John Vergos

See accompanying independent auditors' report.

The Regional Medical Center at Memphis
Balance Sheet
June 30, 2012
($ in Thousands)

	Assets	June 2012	May 2012	June 2011
	Current Assets:			
1	Cash and Cash Equivalents	$ 18,196	$ 20,734	$ 46,780
2	Less Board Designation of Funds for Self-Insurance	(8,400)	(8,900)	(8,900)
3	Less Board Designation of Funds for Capital Needs	(112,089)	(112,089)	(72,089)
4	Investments, market value	120,517	120,321	69,520
5	**Cash and Investments**	18,224	20,066	35,311
6	Patient Accounts Receivable	247,722	252,580	236,102
7	Less Allowances for Contractuals & Bad Debt	(197,876)	(205,271)	(206,742)
8	**Patient Accounts Receivable, net**	49,846	47,308	29,360
9	Accounts Receivable from UT/UTMG, net	1,508	996	1,452
10	Other Accounts Receivable	7,897	19,512	7,303
11	Appropriations Receivable from Shelby County	0	(622)	0
12	Inventories	3,321	3,380	3,323
13	Prepaid Expenses	986	948	464
14	**Total Current Assets**	81,781	91,587	77,212
15	Board Designation of Funds for Self-Insurance	8,400	8,900	8,900
16	Board Designation of Funds for Capital Needs	112,089	112,089	72,089
17	Property, Plant and Equipment, net	63,112	60,956	53,816
18	**Total Assets**	$ 265,382	$ 273,533	$ 212,017

	Liabilities & Fund Balance			
	Current Liabilities:			
19	Accounts Payable	$ 9,451	$ 10,298	$ 6,853
20	Accrued Expenses	10,013	8,653	6,851
21	Compensated Absences	6,933	7,336	6,522
22	Current Maturities of Long-term Debt	0	0	0
23	Estimated Third Party Payor Settlements	7,817	10,296	11,304
24	**Total Current Liabilities**	34,214	36,582	31,530
25	Deferred Revenue and Other Long-term Liabilities	955	1,104	925
26	Reserve for Self-Insured Losses	8,368	9,094	8,900
27	**Total Liabilities**	43,537	46,781	41,355
	Fund Balance:			
28	Revenue over (under) Expenses, Current Year	51,184	56,091	74,433
29	Unrestricted Fund Balance	170,661	170,661	96,229
30	**Total Liabilities & Fund Balance**	$ 265,382	$ 273,533	$ 212,017

Attachment C.OD.3

Total all industries
Memphis, TN-MS-AR MSA, Tennessee

Healthcare Practitioners and Technical Occupations

Occupation	Occ. code	Est. empl.	Mean Wage	Entry wage	Exp. wage	25th Per.	Median Wage	75th Per.
HEALTHCARE PRACTITIONERS AND TECHNICAL OCCUPATIONS	29-0000	40,570	65,467 31.47	32,742 15.74	81,830 39.34	38,969 18.74	53,642 25.79	71,384 34.32
Chiropractors	29-1011	40	116,874 56.19	39,411 18.95	155,606 74.81	42,894 20.62	147,307 70.82	
Dentists, General	29-1021	230	147,531 70.93	95,206 45.77	173,694 83.51	109,792 52.78	145,897 70.14	
Dietitians and Nutritionists	29-1031	330	48,846 23.48	33,282 16.00	56,629 27.23	38,206 18.37	47,014 22.60	56,420 27.12
Optometrists	29-1041	200	148,877 71.58	79,033 38.00	183,799 88.37	92,918 44.67	132,622 63.76	
Pharmacists	29-1051	1,790	111,511 53.61	86,004 41.35	124,264 59.74	101,976 49.03	115,158 55.36	128,797 61.92
Anesthesiologists	29-1061	300						
Family and General Practitioners	29-1062	260	187,009 89.91	121,604 58.46	219,712 105.63	145,563 69.98		
Internists, General	29-1063	160	201,941 97.09			164,908 79.28		
Obstetricians and Gynecologists	29-1064	60	169,923 81.69	61,915 29.77	223,926 107.66	92,818 44.62		
Pediatricians, General	29-1065	270	151,047 72.62	79,557 38.25	186,792 89.80	105,939 50.93	156,364 75.18	
Psychiatrists	29-1066	50	155,026 74.53	64,179 30.86	200,449 96.37	92,139 44.30	144,880 69.65	
Surgeons	29-1067	360	174,877 84.08	53,815 25.87	235,408 113.18	90,795 43.65		
Physicians and Surgeons, All Other	29-1069	1,550	172,485 82.93	81,279 39.08	218,088 104.85	112,010 53.85		
Physician Assistants	29-1071	120	90,581 43.55	46,336 22.28	112,703 54.18	63,549 30.55	77,817 37.41	87,889 42.25
Podiatrists	29-1081		185,463 89.16	123,291 59.27	216,548 104.11	134,111 64.48		
Registered Nurses	29-1111	15,060	63,207 30.39	46,645 22.43	71,487 34.37	50,951 24.50	59,706 28.70	71,460 34.36
Audiologists	29-1121		51,779 24.89	47,613 22.89	53,862 25.90	46,950 22.57	50,319 24.19	53,764 25.85
Occupational Therapists	29-1122	350	66,993 32.21	45,052 21.66	77,963 37.48	54,788 26.34	68,744 33.05	84,011 40.39

Physical Therapists	29-1123	760	76,789	57,425	86,471	63,329	76,959	89,053
			36.92	27.61	41.57	30.45	37.00	42.81

Entry and Experienced wages represent the mean of the lower third and the mean of the upper two-thirds of the wage distribution respectively. The OES survey does not collect information for entry or experienced workers. Tennessee Depatment of Labor & Workforce Development, Employment Security Division, Labor Market Information. Publish date June 2010.

Total all industries
Memphis, TN-MS-AR MSA, Tennessee

Healthcare Support Occupations

Occupation	Occ. code	Est. empl.	Mean Wage	Entry wage	Exp. wage	25th Per.	Median Wage	75th Per.
HEALTHCARE SUPPORT OCCUPATIONS	31-0000	13,800	25,626	18,532	29,172	20,248	24,169	29,429
			12.32	8.91	14.03	9.73	11.62	14.15
Home Health Aides	31-1011	1,960	21,162	16,148	23,669	16,794	20,230	24,621
			10.17	7.76	11.38	8.07	9.73	11.84
Nursing Aides, Orderlies, and Attendants	31-1012	5,540	23,021	18,075	25,495	19,563	22,516	26,037
			11.07	8.69	12.26	9.41	10.82	12.52
Occupational Therapist Assistants	31-2011	100	46,302	30,102	54,402	30,482	34,439	64,868
			22.26	14.47	26.15	14.65	16.56	31.19
Occupational Therapist Aides	31-2012	50	21,783	18,955	23,197	19,211	21,083	24,114
			10.47	9.11	11.15	9.24	10.14	11.59
Physical Therapist Assistants	31-2021	280	52,803	39,506	59,452	44,215	52,743	63,681
			25.39	18.99	28.58	21.26	25.36	30.62
Physical Therapist Aides	31-2022	180	22,808	17,804	25,310	18,503	21,161	27,049
			10.97	8.56	12.17	8.90	10.17	13.00
Massage Therapists	31-9011	200	36,797	18,608	45,892	22,673	35,358	52,856
			17.69	8.95	22.06	10.90	17.00	25.41
Dental Assistants	31-9091	1,020	31,486	23,519	35,469	25,054	30,127	38,483
			15.14	11.31	17.05	12.05	14.48	18.50
Medical Assistants	31-9092	2,670	26,928	21,882	29,451	23,468	26,968	30,165
			12.95	10.52	14.16	11.28	12.97	14.50
Medical Equipment Preparers	31-9093		29,010	23,103	31,964	24,888	28,990	33,278
			13.95	11.11	15.37	11.97	13.94	16.00
Medical Transcriptionists	31-9094	240	31,945	27,002	34,416	27,966	31,771	36,461
			15.36	12.98	16.55	13.45	15.27	17.53
Pharmacy Aides	31-9095		22,445	18,623	24,355	18,532	20,289	25,551
			10.79	8.95	11.71	8.91	9.75	12.28
Veterinary Assistants and Laboratory Animal Caretakers	31-9096	270	20,700	15,412	23,343	15,761	18,927	24,866
			9.95	7.41	11.22	7.58	9.10	11.95
Healthcare Support Workers, All Other	31-9099	750	30,345	21,285	34,875	23,757	28,658	37,723
			14.59	10.23	16.77	11.42	13.78	18.14

Entry and Experienced wages represent the mean of the lower third and the mean of the upper two-thirds of the wage distribution respectively. The OES survey does not collect information for entry or experienced workers. Tennessee Depatment of Labor & Workforce Development, Employment Security Division, Labor Market Information. Publish date June 2010.

COPY-

SUPPLEMENTAL-1

Memphis Long Term Care Specialty Hosp.

CN1210-052

SUPPLEMENTAL - # 1
October 25, 2012
12:00pm

1. **Clarification**

Staff notes in several places the applicant refers to the agency action at Sept 2012 meeting in the following manner "... the HSDA approved The MED's request to purchase this project and move it to the main campus of The MED (emphasis added). This is that relocation application."

Please note that the Agency's September 2012 action pertained to the change of control of an unimplemented certificate of need as permitted by TCA § 68-11-1620 (b) (2). That approval did not include the relocation of the project. The subject of this application is the relocation of the project.

Response My apology for the poor word-smithing. You are correct. At the September meeting, the HSDA approved The MED to purchase Memphis Long Term Care Specialty Hospital, LLC, owner of the project. We understood that any approval to relocate would require a separate CON, which prompted the filing of the instant application.

2. **Section A, Applicant Profile, Item 3**

All of the documents included in this section refer to the previous owner of the project. Please provide documentation from the Secretary of State's Office that reflects the transfer of ownership.

Response: The previous owner of the project is the current owner. Prior to the September meeting of the HSDA, Memphis Long Term Care Specialty Hospital, LLC owned a CON for the establishment of Memphis Long Term Care Specialty Hospital. Following the September meeting, Memphis Long Term Care Specialty Hospital, LLC continues to own the CON for the establishment of Memphis Long Term Care Specialty Hospital. Executed closing documents, as requested in the following question, are attached. These documents evidence the transfer of ownership.

3. **Section A, Applicant Profile, Item 4**

Please provide a copy of the executed contract that documents the transfer of ownership between the previous owner and The MED.

Response: The executed closing documents are attached as *Supplemental Closing Documents*.

4. **Section B. Item II. A. (Project Narrative)**

Turner Tower on The MED's campus is the subject of another application (CN1208-037) that is scheduled to be heard at the November 2012 Agency meeting. Please describe that application briefly and its relationship to this project.

Will the proposed LTACH be the only occupant on the 4th floor?

Response: Shelby County Health Care Corporation, d/b/a, Regional Medical Center at Memphis ("The MED"), filed a multi-part Certificate of Need (CN1208-037) for:

(a) the conversion of the license for ten (10) med/surg beds to rehab beds, and

(b) the relocation of its existing twenty (20) bed rehab unit, after which a thirty (30) bed rehab unit will be operated in Turner Tower;

(c) the addition of three (3) operating rooms to be dedicated to outpatient surgery, which rooms will be operated in Turner Tower as a department of the Applicant;

(d) the general renovation of Turner Tower, including the buildout of unused space for a twenty-four (24) bed unit which will be utilized as med/surg hospital beds; and

(e) the relocation of an existing ten (10) bed med/surg unit to Turner Tower, which will result in six (6) staffed med/surg beds.

The estimated project cost was anticipated to be approximately $28,400,000, including filing fee. This project is scheduled to be heard at the HSDA's November 14, 2012 meeting.

As stated in CN1208-037:

> "Finally, the Turner Tower is one of our more recently-constructed buildings, having been completed in 1992. As is well-known, Memphis sits on or close to the New Madrid fault, and the Turner Tower was designed and constructed to meet seismic safety requirements in effect at that time. When originally constructed, the lower floors were utilized for various hospital functions, and the upper floors were shelled in for future use. Those upper floors still stand empty. Since other renovations are taking place in Turner Tower with the approval of this project, there were efficiencies in renovating and building out the 4th Floor of the building at the same time. The 4th Floor will house a 24 med/surg bed unit, but there will be no increase in the licensed bed count of 631. The Applicant will be able to utilize these 24 beds for any med/surg purpose as other

buildings and existing and needed services on campus are evaluated. Current estimates are that approximately $800,000 dollars will be saved by building out all floors now, rather than waiting for a next phase of renovation to the campus."

... CON Application, Pages 11, 14, & 17, and referenced again at pages 58, 59, & 62.

The earlier application goes on to state:

"From a historical point of view, the Applicant has not enjoyed financial success in the past as other hospitals in Memphis improved their respective campuses and added services. Following a brief period of time when a management company was brought in, a new senior administration was hired recently (2010) to oversee the improvement of both the physical plant and to enhance patient services at the facility. Both the management company and new senior management have been able to cut expenses, streamline processes, rework contracts, enhance the quality of services, and improve the financial viability of The MED. This CON project is the next phase of planned improvements to the campus in an effort to further improve both the quality of services being provided to our patients and our physical plant. At present, there is no formally-adopted long range plan, but several areas of the campus continue to be studied by senior leadership, key department heads, and the Board of Directors."

... CON Application, Pages 12 & 13.

Following the filing of that earlier application and as part of The MED's ongoing evaluations of both its physical plant and services, the Administration at The MED became aware of a coincidence: (1) there were no immediate plans on how to utilize the 24 beds on the 4th floor of Turner Tower; and (2) Memphis Long Term Care Specialty Hospital, a 24 bed LTACH, apparently was not going to be implemented as approved. The MED pursued the possibility of acquiring the Owner of the specialty hospital with the intent of relocating that LTACH to its campus. Acquisition approval was granted by the HSDA at its September, 2012 meeting, and this CON application was filed.

In summary, this application is part of the continuing efforts of The MED to update its campus and services in order to provide needed care for patients.

5. **Section B. Item III.**

Turner Tower is noted on the Satellite view page. Please mark the location of Turner Tower on the Plot Plan. Also, the property map includes a list of locations on The MED's campus that are identified by Parcel ID #. Turner Tower is not specifically listed. Is it included as part of the "Hospital-Parcel ID#18051-00051"?

Response: Please see *Supplemental Plot Plan.* The box marked with an "X" is the approximate location of Turner Tower on The MED's campus. Turner Tower is located within and is a part of the 7.94 Acre parcel identified as Parcel ID# 018051-00051 on Attachment B.III.A.1.

6. **Section B Item IV (Floor Plan)**

Please give a brief description of the layout for the proposed LTACH that includes the following: private vs. semi-private rooms; private vs. semi-private bathrooms; dining area; number of nurses stations and locations; description of call system; whether electronic health records (EHR) will be used and if so, whether the LTACH system will be integrated with The MED's EHR system if one is currently in place.

If the proposed LTACH is not the only occupant on the 4th floor, are physical separations such as fire doors and fire walls in place so it can be deemed to be physically separate and therefore be recognized as a separate facility by the TN Department of Health?

Response: The proposed LTACH will be located on the 21,340 GSF 4th floor of Turner Tower and will contain at a minimum the following:

- 24 private patient rooms, each with a single bed
- each patient room will have its individual bath
- each patient room will be located to the outside of the building, meaning individual outside windows in each patient room
- 5 nurses' stations, one centralized plus one in each "wing" of the floor
- family waiting room
- reception area
- separated soiled/clean utilities
- office space
- staff lounge areas
- no central dining area due to medical condition of patients (it is anticipated that dietary services will be contracted with The MED)
- Electronic Health Records will be shared between the Applicant and The MED. At some point in the future, these two systems may be integrated. Medical record information can be shared without violating HIPAA via patient authorization and standard Business Associates Agreements. Both will be used to ensure patient record privacy.

The LTACH will be the sole occupant of the 4th Floor at Turner Tower. The Applicant will be separately licensed, and legally separate from The MED. This LTACH will be operated as a "hospital within a hospital" which is the most common manner in which to operate an LTACH. At entry level, all persons exiting the elevators on the 4th floor will be aware that they are entering a separately-licensed hospital, as required by licensure and CMS regulations.

The only additional construction/equipment needed for the LTACH (over and above a more traditional med/surg unit) will be: (1) a dialysis "box" will be installed in each patient room, which will allow a mobile dialysis unit to be utilized in each patient room,

as needed; and (2) a flexible med-gas headwall system will be installed in each patient room.

As for fire separation, the floors already have a 1 hour fire separation. The only additional fire separation item to be installed is a 1 hour fire separation between the actual elevator and the lobby of the LTACH on the fourth floor.

The contingency construction and equipment amounts already noted in the application are sufficient for the separation of the LTACH from The MED.

7. **Section C- State Health Plan Principles**

Please address the 3rd principle related to economic efficiencies in more detail. The Agency is aware of the tremendous burden that uninsured patients place on hospitals in general and specifically on public hospitals such as The MED. The Agency is also aware of the recent news as reported in the Memphis Business Journal regarding The MED's positive revenue turnaround. Please address how this project will help The MED continue to improve its financial bottom line.

Response: It is true that The MED has recently experienced a financial turnaround. With that said, The MED is still responsible for acute care for all Shelby County residents who present for care. To that extent, The MED has received some financial help from the County. However, this LTACH will not receive that financial aid: the Applicant has to operate with no outside financial aid, and ensure that its business practices, especially including the constant monitoring of revenue and expenses, ensures the continued financial success of the LTACH.

Short term acute care hospitals (such as The MED) lose money each day a patient with LTACH DRGs stays in the hospital. It has been a long-accepted and CMS-approved practice to move such patients to an LTACH. Transferring such patients to an LTACH does several things, including but not limited to, providing appropriate care for the patient, allowing the LTACH facility to be reimbursed appropriately for the level of care being provided, and decreasing the financial losses and freeing up short term acute care beds at the transferring hospital.

There are three existing LTACHs in Memphis. There is no question that the quality of health care being delivered to LTACH patients at Baptist Memorial Restorative Care Hospital, Methodist Extended Care Hospital, Inc., and Select Specialty Hospital – Memphis is excellent. However, both the physicians at The MED and their patients have been reluctant to transfer to these three existing LTACHs. Physicians want their patients close to them, and patients want to stay close to their doctors. If The MED physicians prefer to keep their patients at The MED, and The MED patients prefer to stay at The MED, the patients stay, and The MED loses money on those long term acute care patients.

Moving The MED's long term acute care patients to an LTACH, even one affiliated with The MED, will decrease financial losses at The MED, keep those patients where they want to be and close to their physicians, improve access by physicians to the patients, and free up short term acute care beds in The MED for patients who need those beds. All of this will contribute to the financial success of The MED.

8. **Section C. Need- Item 5**

From 2008 to 2011 occupancy rates have declined at Baptist Memorial Restorative Care, increased and then declined slightly at Methodist Extended Care and both increased, declined and then increased again at Select Specialty Hospital-Memphis. Does the applicant have any explanation or theory for these changes? Also, please identify the location of each of these facilities in relation to the applicant, the "host" hospital for each facility, if applicable, and the difference in miles and travel time between this proposed facility and the other three existing facilities.

Response: The Applicant does not speculate on utilization rates at other facilities, and has no theories on their respective occupancies. We do know, however, that The MED physicians prefer to have their patients institutionalized in close proximity, and that patients of these physicians also prefer to remain institutionalized in close proximity to their respective physicians.

The Applicant will be located in downtown Memphis. There are three existing LTACHs in Memphis, as follows:

Baptist Memorial Restorative Care Hospital, 6019 Walnut Grove 1 West, Memphis, TN 38120, located about 20 minutes and a little over 12 miles to the East from the Applicant, toward Germantown, and is located on the campus of Baptist Memorial Hospital;

Methodist Extended Care Hospital, Inc., 225 South Claybrook, Memphis, TN 38104, is located about 5 minutes and about one and one-half miles southeast of the Applicant, across I-240, and is located on the campus of Methodist Healthcare; and

Select Specialty Hospital – Memphis, 5959 Park Avenue, Memphis, TN 38119 (at St. Francis Hospital), is located about 24 minutes and a little over 10 miles to the East of the Applicant, toward Germantown, and about 4 minutes and about 2 miles south of Baptist Memorial Restorative Care Hospital, is obviously located on the campus of St. Francis Hospital.

If approved, the Applicant will be only the second LTACH located in downtown Memphis.

9. **Section C. Need - Item 6 (page 34)**

Please identify the firm. Is there a report or summary that could be shared with the Agency?

Response: The outside firm referenced in the application is Murer Consultants, Inc, 38 North Chicago Street, Joliet, IL 60432, (815) 727-3355. The report is attached, and labeled *Supplemental Feasibility Study.*

Please note (page 20) that this study confirmed that The MED could support a 37 bed LTACH operating at 100% occupancy, and that this application is for only 24 beds. It is also important to note that the CMS "50% rule" applies only to reimbursement – not transferability of patients. In other words, while there may be decreased reimbursement for patients referred from The MED over a certain percentage of the LTACH patient base, such reduced reimbursement is still greater than The MED would receive if such patients stayed in The MED. The reduced LTACH reimbursement is still greater than the reimbursement for the same patients in a short stay hospital. Therefore, it is still logical to move long term acute care patients to an LTACH even if such transfer results in lower reimbursement for the LTACH than otherwise expected.

10. **Section C, Economic Feasibility, Item 1**

The letter that is attached as C.EF.1 from Mr. Goodwin, President and CEO of American Program Management, LLC, indicates that $788,165 is a sufficient estimate to complete the relocation and meet all codes. Please briefly describe the type of renovations that must occur for this to meet codes including the 2010 AIA Guidelines. Are there additional higher standards that must be met for a LTACH that are above the standards being used for the renovations and modifications related to CN1208-037?

Response: The only additional construction/equipment needed for the LTACH (over and above a more traditional med/surg unit) will be: (1) a dialysis "box" will be installed in each patient room, which will allow a mobile dialysis unit to be utilized in each patient room, as needed; and (2) a flexible med-gas headwall system will be installed in each patient room.

As for fire separation, the floors already have a 1 hour fire separation. The only additional fire separation item to be installed is a 1 hour fire separation between the actual elevator and the lobby of the LTACH on the fourth floor.

The contingency construction and equipment amounts already noted in the application are sufficient for the separation of the LTACH from The MED.

11. Section C, Economic Feasibility, Item 4 (Projected Data Chart)

Please explain how charity care and bad debt were determined given the high percentage of each that The MED has typically had to write off.

Please explain the following Operating Expenses:
D4- Taxes
D9-Other Expenses--Travel/Meals & Entertainment
--Ancillary Patient Services

Response: Charity Care and Bad Debt were estimated to be 7.5% each of Gross Reimbursement. The Guidelines for Long Term Care Hospital Beds requests that provision should be made so that a minimum of 5% of the patient population using such beds be charity or indigent care. Our projections of 7.5% for both charity and bad debt exceeds that guidelines.

It is important to remember that, while The MED has written off vast sums due to charity and bad debt through the years, this LTACH will be a separately-governed, separately-controlled, and separately-licensed facility. The Owner of this LTACH was originally set up as a for-profit entity, and as stated earlier, this LTACH must operate in such a manner that economic feasibility is ensured. Our projections indicate such will be the case. In any event, if financial support is required at some point in the future, the cost savings to The MED will allow it to provide such support, if needed.

"Taxes" include approximately $150,000 in F&E (Franchise and Excise) taxes, and the remainder in payroll taxes. Again, the Owner of the LTACH is a for-profit entity and will have tax liabilities.

"Travel/Meals & Entertainment" include such related expenses necessary for the travel to/from educational conferences, meals for CME courses and physicians being recruited to the LTACH, and the like. Such expenses are usual and customary for such hospitals.

"Ancillary Patient Services" will include costs of the LTACH for payment of services required of our patients but not provided by the LTACH itself. For example, the LTACH will not have its own MRI, so if a patient needs such a scan, the LTACH will have to pay a local hospital for such services. The same can be said for lab work, pharmacy, surgery, dietary, housekeeping and any other services not provided directly by the LTACH. As stated in the original application,

> "LTACHs are able to provide such extended acute care at much lower costs per day because they are not as intensively capitalized as a general hospital. Every LTACH has heavy acute-care levels of staffing. But the LTACH does not have to maintain the varieties of in-house ancillary equipment and support spaces which general hospitals have to provide to patients during the initial, diagnostic-intensive short-term hospital stay.

As we will be located on the campus of The MED, our patients will have ready access to any needed level of diagnostic service."

...CON application, page 14.

12. Section C, Economic Feasibility, Item 9

How was the 50/50 breakdown between Medicare and Medicaid determined?

Is this consistent with The MED's payment source?

Response: LTACH payor percentages are normally not reflective of short term acute care hospital payor sources. Again, while the Owner of the Applicant is owned by The MED, it does not necessary follow that all of the Applicant's patients (and their respective diagnoses) will reflect the average or "norm" of The MED's patients. LTACH patients are usually older and sicker than "normal" short term acute care patients, which would probably tend to increase the percentage of Medicare patients over what you would expect in a short term care hospital.

Also, this LTACH is not sized to take care of all of the LTACH patients that The MED could furnish. The Applicant is hopeful that there will be a significant portion of patients who are self-pay and insurance patients, but is not counting on that, and expects to have a much higher percentage of Medicare patients than does The MED. In any event, our estimates are based on very conservative expectations that most of our patients will be older, sicker, and less likely to be commercially-insured for LTACH care.

Obviously, the more Medicare and Medicaid patients we have, the less likely the Applicant will have excessive charity care and bad debt patients, since the LTACH reimbursement program was set up to include such patients. In effect, the Applicant will be receiving some reimbursement for the care being provided, as opposed to having to write off all of the costs of the care.

13. **Section C, Economic Feasibility, Item 11**

Did the applicant consider transferring patients who are eligible for LTACH care to one of the existing facilities in Memphis?

Would transferring a patient out of an expensive hospital bed at The MED into a lower cost LTACH bed at another facility not have a positive effect on The MED's bottom line?

Has The MED ever had problems trying to place patients in an existing LTACH facility in the past and been denied admission due to payment source (or lack thereof)?

Response: Yes. However, as stated earlier, there are three existing LTACHs in Memphis. There is no question that the quality of health care being delivered to LTACH patients at Baptist Memorial Restorative Care Hospital, Methodist Extended Care Hospital, Inc., and Select Specialty Hospital – Memphis is excellent. However, both the physicians at The MED and their patients have been reluctant to transfer to these three existing LTACHs. Physicians want their patients close to them, and patients want to stay close to their doctors. If The MED physicians prefer to keep their patients at The MED, and The MED patients prefer to stay at The MED, the patients stay, and The MED loses money on those long term acute care patients.

Moving The MED's long term acute care patients to an LTACH, even one affiliated with The MED, will decrease financial losses at The MED, keep those patients where they want to be and close to their physicians, improve access by physicians to the patients, and free up short term acute care beds for patients who need those beds. All of this will contribute to the financial success of The MED. So, it matters not whether a long term acute care patient is transferred to another LTACH or to an LTACH at The MED, such transfer will improve the bottom line at The MED.

The MED is aware that some of its hospital patients are transferred to existing LTACHs. However, The MED does not monitor such transfers, so no accurate, reliable records are available. Anecdotally, certain administrative positions at The MED have been aware for some time that physicians who practice at The MED want to keep their patients there, even if the patient needs long term acute care. So, this application is not being filed because our patients can't find an LTACH bed – it is being filed because our physicians and patients want to stay at The MED, and this small 24 bed LTACH, already approved and merely requesting to be relocated to The MED's campus, will provide long term acute care services for some without having to transfer those patients to another geographic location. It is also very noteworthy that the approval of this project will improve the bottom line of The MED, as discussed in both the CON application and in these Supplementals.

14. Section C, Contribution to the Orderly Development of Health Care,

Staff believes it would be helpful if The MED would explain why it chose to acquire an existing unimplemented CON rather than try to establish a new facility with new beds. This explanation should address the LTACH moratorium as well as the 25% rule regarding admissions from host hospitals.

Response: CMS established a 3 year moratorium on the designation of new LTACHs or LTACH satellites, and on an increase of beds in an existing LTACH. The moratorium began on December 29, 2007, and was scheduled to end on December 28, 2010 (see *Supplemental CMS-1*). The moratorium allowed for limited exceptions for certain providers in very specific circumstances (see *Supplemental CMS-2*). Later (on July 23, 2010), the moratorium was extended to December 28, 2012 (see *Supplemental CMS-3*).

The end result of all of these regulatory changes regarding CMS' certification of LTACHs is that since December 29, 2007, neither new hospitals nor additions to existing hospitals were allowed unless a facility fell into a very specific set of circumstances resulting in an exception to the moratorium. Basically, both the addition and/or expansion of LTACHs in the United States were shut down. Had any provider attempted to pursue a new LTACH or add to an existing LTACH, that facility or addition would not be certified by CMS. Therefore, it made no sense to apply for a CON for an LTACH so long as the moratorium was/is in effect. That moratorium is scheduled to expire on December 28, 2012.

The key word in the above paragraph is "scheduled." The original moratorium was scheduled to expire in 2010, but was extended two years. The current moratorium: could be extended; it might expire totally; and it might expire and be quickly reinstated. It is all but impossible to predict what any governmental regulatory agency absolutely will or will not do in the future.

As stated, The MED became aware of the Applicant's situation during a time period when The MED was preparing a CON (CN1208-037, referenced earlier in these Supplementals) for major renovation of a building on its campus – Turner Tower. It had already been decided that there were tremendous savings (over $800,000) to go ahead and renovate the 4th floor of Turner Tower for med/surg uses at the same time, even though there were no immediate plans on how that 4th floor would be utilized. That 4th floor was originally designed for 24 med/surg beds.

The MED decided to pursue purchase of ownership interests in the Applicant's LTACH. Two issues had to be decided: (1) did that LTACH fall within an exception – in effect, would it be certified by CMS if built; and (2) could the ownership interests of the LTACH actually be acquired? The first issue involved CMS and the second issue would be decided by the Owner of the LTACH (an agreement to purchase) and ultimately by the HSDA (permission to purchase).

Since the Applicant's LTACH had been approved prior to implementation of the moratorium, The MED felt that CMS would, in fact, allow its construction. The CMS moratorium extension notice (*Supplemental CMS-3*) directed anyone having questions about whether or not their particular situation would fall into an exception to contact Judith Richter, J.D., at CMS. Judith Richter was contacted concerning the Applicant, and she advised (see *Supplemental CMS-4*) that the Applicant did fall within an exception, meaning that the moratorium did not apply to the Applicant's LTACH.

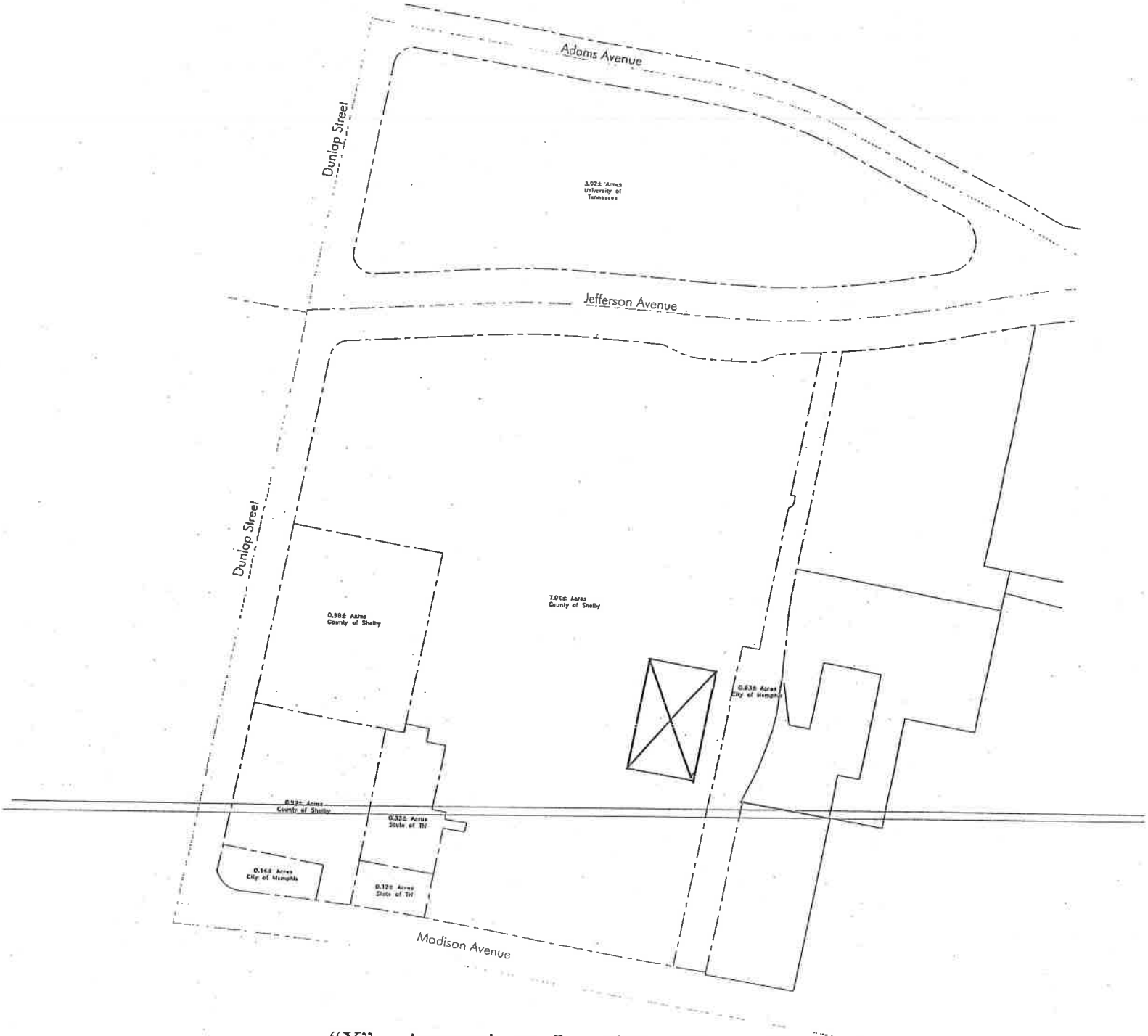
The MED entered into negotiations with the Owner of the Applicant, and an agreement was finally reached (see *Supplemental Closing Documents*). By the time a "hand-shake" agreement to purchase had been made (prior to execution of the closing documents), the first CON application (involving Turner Tower) had already been filed with the HSDA. The MED immediately requested permission from the HSDA to purchase ownership interests of the Owner, which permission was granted by the HSDA during its September, 2012 meeting. Following that meeting, The MED assisted the Applicant in filing the instant CON application (CN1210-052). Approval of this application will allow the Applicant to relocate to that 4th floor of Turner Tower, irrespective of what happens with the moratorium.

CMS realized decades ago that certain hospital patients did not fall with existing DRG categories, that these patients were much sicker and required much more intense and longer acute care, and would as a result stay in the hospital much longer than typical hospital patients. LTACHs could be set up as free-standing facilities, or as a "hospital within a hospital" which usually meant having the LTACH lease a wing, a floor, or more than one floor of an existing acute care hospital. In any event, the LTACH had to be a separately licensed and separately governed hospital. If set up within an existing hospital, that existing hospital was referred to as a "host" hospital.

When LTACHs were originally allowed under CMS rule, there were no restrictions on admissions. Over time, LTACHs were restricted on what percentage of their patients could be referred to them by their host hospital, and if that percentage was exceeded, the reimbursement for the patients over that percentage would be reduced. At one point, the percentage of patients from the host hospital could not exceed 75% of the LTACH's patients. Later, that host hospital percentage was reduced to 50%, where it now stands frozen for another year (until October, 2013).

It is also important to note that the CMS "50% rule" applies only to reimbursement – not transferability of patients. In other words, while there may be decreased reimbursement for patients referred from The MED (the host hospital for this Applicant) over a certain percentage of the LTACH patient base, such reduced reimbursement is still greater than the reimbursement The MED would receive if such patients stayed in The MED. The reduced LTACH reimbursement is still greater than the reimbursement for the same patients in a short stay hospital. Therefore, it is still logical to move long term acute care patients to the Applicant's LTACH even if such transfer results in lower reimbursement for the LTACH than otherwise expected.

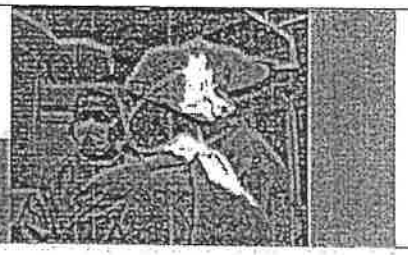
The referenced "25% rule" applies to non-host hospitals. While host hospital admissions in excess of 50% of the LTACH's patients are reimbursed at a lesser amount, non-host hospital admissions in excess of 25% of the LTACH's patients are reimbursed at a lesser amount. The logic behind that distinction is the perception that host hospitals with LTACHs will "partner" to cycle the patient to the LTACH and then back to the host hospital when that patient no longer needs LTACH care but might need some acute care prior to discharge. That same logic included the perception that an LTACH not associated with the referring non-host hospital might be inclined to keep a patient in the LTACH for a longer period of time than needed. Therefore, the reimbursement disincentive is greater for non-host hospital referrals.



"X" = Approximate Location of Turner Tower

Regional Medical Center at Memphis

Providing Health Care Since 1829



Feasibility Study Long Term Acute Care Hospital

Prepared for

THE REGIONAL MEDICAL CENTER AT MEMPHIS GOVERNING BOARD

Memphis, Tennessee

Presented By

Murer Consultants Inc.

58 North Chicago Street

Joliet, Illinois 60432

Telephone (815) 727 3355

Telefax (815) 727 3360

Web Site: www.murer.com

Presented July 24, 2012

SUPPLEMENTAL - # 1
Supplemental Feasibility Study
October 25, 2012
12:00pm

MURER CONSULTANTS, INC

Murer Consultants Inc., is a legal based healthcare management consulting firm founded by Cherilyn G. Murer, J.D., C.R.A. in 1985.

Murer Consultants is comprised of consultants who share a similar background in law, with contributions based on various areas of clinical, financial and managerial expertise.

The Mission of Murer Consultants Inc. is to promote problem solving in the healthcare industry based on sound pragmatic reasoning with development of realistic recommendations which can be implemented within a given timeframe.

Murer Consultants Inc.

Since 1990, Murer Consultants, Inc., has been or is involved with the establishment of more than 50 Long Term Acute Care Hospitals with projects in feasibility, development or management in 30 States.

Celebrating 27 years in the healthcare industry

MURER CONSULTANTS HAS CONDUCTED LTACH STUDIES OR ESTABLISHED LTACHS IN THE FOLLOWING STATES:

Alabama	Iowa	North Carolina
Arizona	Kansas	Ohio
Arkansas	Kentucky	Oklahoma
California	Louisiana	Oregon
Colorado	Michigan	South Carolina
Delaware	Mississippi	Tennessee
Florida	Missouri	Texas
Georgia	Nebraska	Virginia
Illinois	Nevada	Washington
Indiana	New Jersey	West Virginia

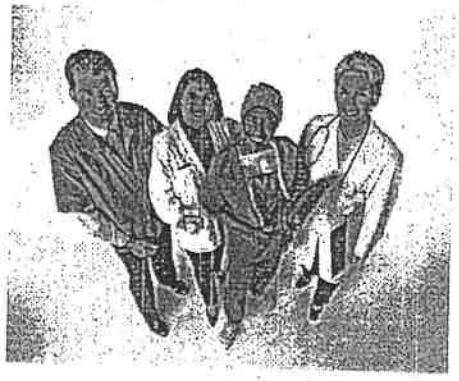
OVERVIEW
LONG TERM CARE HOSPITAL

Celebrating 27 years in the healthcare industry

SUPPLEMENTAL- # 1
October 25, 2012
12:00pm

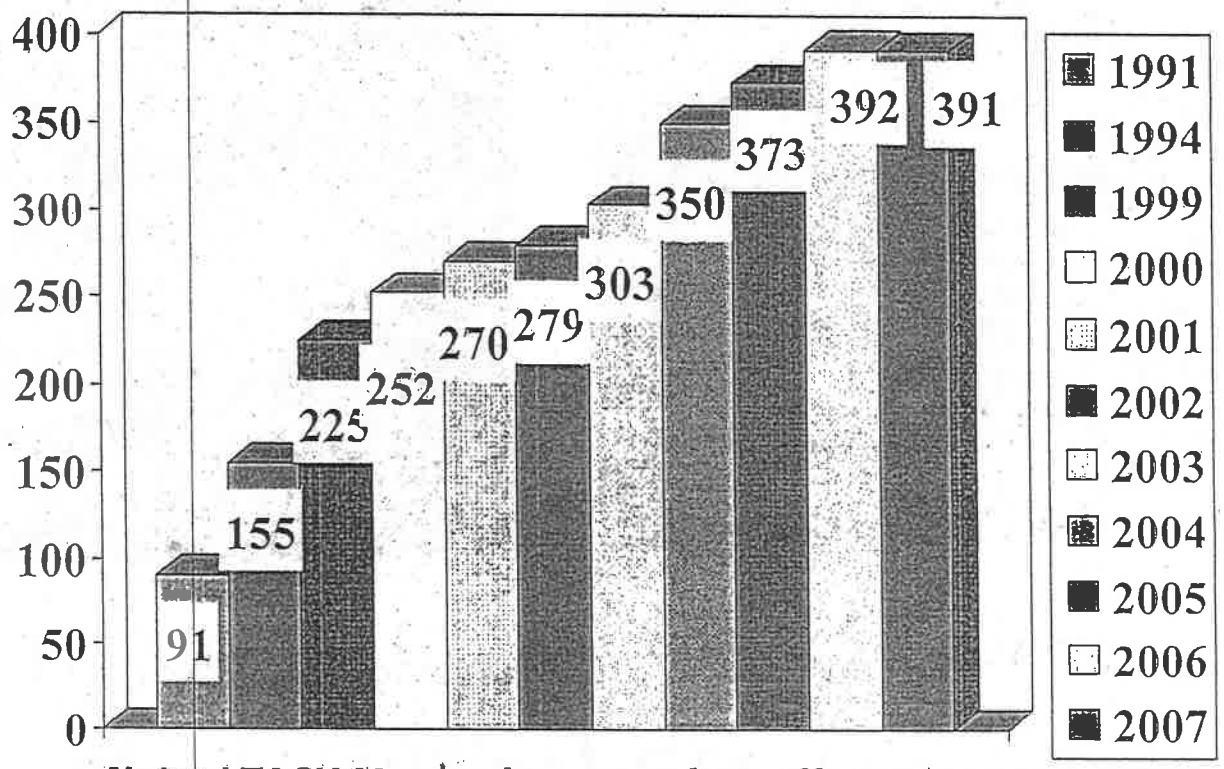
COMPLETING THE CONTINUUM OF CARE

Ideally, a long term care hospital operates within a total healthcare system to complete the full continuum while providing a venue of care where the patient can be treated for an extended length of stay with commensurate reimbursement.



Today, an effective health system must have within its continuum, appropriate venues of care to minimize acute care revenue losses.

NUMBER OF LTACHS



Note: LTACH Moratorium went into effect December, 2007

BENEFITS AND APPROPRIATE CONDITIONS OF A LTACH

Benefits of a LTACH

Extends the Continuum of Care

Diminishes (short term acute hospital) DRG Revenue Loss

Recognition by Managed Care Payment Structure

No Limitation on Type of Diagnoses

No Limitation on Age

No Limitation on Scope of Services Provided

Ability to Cross-Utilize Services and Resources within the Health System Continuum

Conditions Appropriate

- Medically Complex
- Respiratory Disorders Including Tracheostomy
- Ventilator Dependent
- Cardiac/Cardiovascular Conditions
- Renal Disease
- Oncology
- Burn
- Re-constructive and Extended Post Surgical Care
- Rehabilitation Related Diagnoses with Complex or Tertiary Needs Prior to Admission to the Comprehensive Inpatient Rehabilitation Unit.

WHO BENEFITS FROM THE LTACH?

Referring Hospitals reduce Losses on Extended Stay Cases

Host Hospital can provide ancillary services to the LTACH

Effective Utilization of Hospital Real Estate

The Health System: New Revenues from the LTACH

The Physician:
Increase acute bed availability, appropriate environment for transfer of patients, no pressure to discharge in an untimely manner

The Community: A viable business and service in its vicinity.

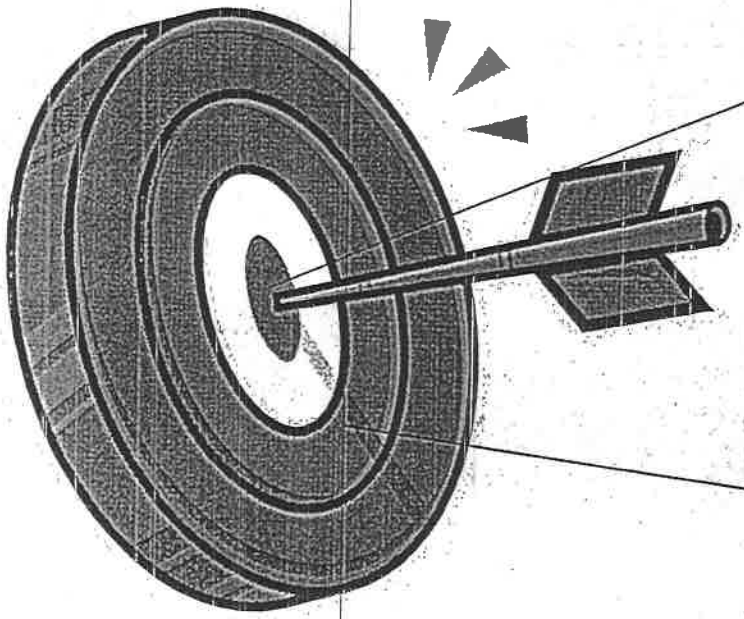
Referring Hospital(s): Opportunity in Bed turn over

The Patient: Venue designed for the extended stay patient

SUPPLEMENTAL- # 1
October 25, 2012
12:00pm

Target Length of Stay Range for Long Term Acute Care Hospital

Prepared By Murer Consultants Inc.



Target Range
18-35 Days

Outside Range
14-45 Days

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THE CONTINUUM

Long term acute care hospitals have become essential to an effective continuum of care as a key venue within a health care system.

LTACH is the mirror image of the short term acute care hospital serving patients whose medical conditions require a stay longer than the Centers of Medicare and Medicaid (CMS) prescribed DRG.

SUPPLEMENTAL- # 1
October 25, 2012
12:00pm

2012 OCT 25 PM 12:06

WHAT'S A LONG TERM ACUTE CARE HOSPITAL ?

LTACH treat very sick patients therefore most LTACH's have Mortality Rates between 15%-18%.

The design and staffing is based on treating the critically ill therefore the need to transfer back to the short term acute care hospital is minimal.

An Acute Hospital for Critical Care & Medically Complex Patients

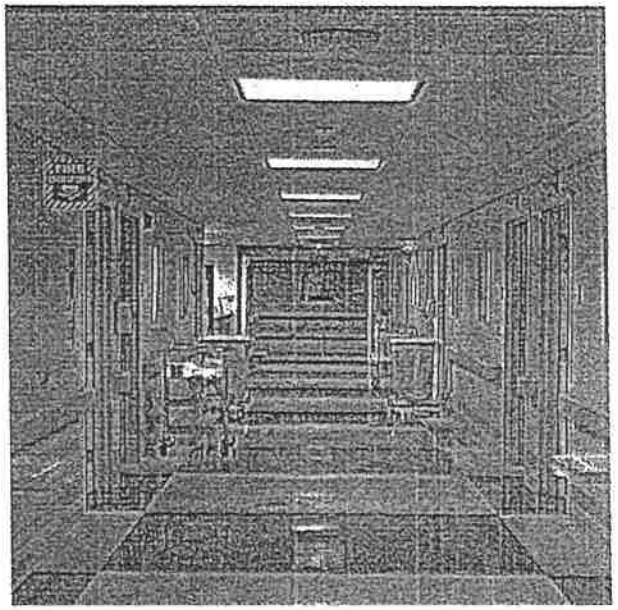
LTACH's are comparable to ICU's or CCU's of short term acute care hospitals.

MEDICAL NECESSITY

- Just like in a short term acute care hospital the long term acute care hospital patient must have the medical necessity requiring an acute level of inpatient care.

- Once this patient no longer meets this criteria discharge planning should move the patient to the next appropriate level of care including discharge to home.

- Medicare is now requiring medical necessity documentation for an LTACH prior to admission, within 48 hours of admission, and validation throughout the stay.



LTC-DRG'S

PREPARED BY MURER CONSULTANTS

A long term acute care hospital is paid under LTC-DRG's. LTC-DRG's have the same definitions as short term acute DRG's but have different relative weights applied to a higher base rate payment.

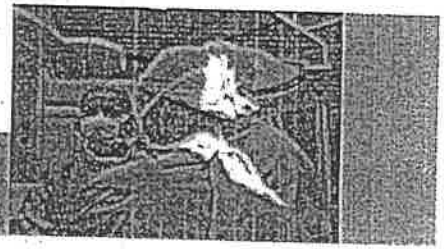
PHYSICIAN REIMBURSEMENT

As a PPS acute care hospital, reimbursement for physician services in an LTACH is identical to that of a PPS short term acute hospital. The physician bills under Part B for Medicare patients or submits bills, in the identical format to short stay acute, for commercial or managed care payors.

SUPPLEMENTAL- # 1
October 25, 2012
12:00pm

Regional Medical Center at Memphis

Providing Health Care Since 1829



LONG TERM ACUTE CARE HOSPITAL FEASIBILITY STUDY

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OVERVIEW

Murer Consultants, Inc. was retained by The Regional Medical Center at Memphis, Memphis, Tennessee to investigate the viability of developing a Medicare-certified long term acute care hospital within its facility in Memphis, Tennessee. The study focused on the following:

- Regulatory Compliance and Organization Model
- Bed Need Analysis
- Financial Analysis
- Site Criteria and
- Other impacting factors.

THE MED

The Regional Medical Center at Memphis (The MED) provides care to a large tertiary patient population.

- 631 licensed hospital with 325 staffed beds
- 20 bed rehabilitation hospital
- Highly respected Centers of Excellence in trauma and burn as well as neonatal intensive care and high risk obstetrics.
- The only Level 1 Trauma Center within 150 miles of Memphis (one of six in Tennessee)
- The Firefighters Regional Burn Center includes a 7 bed ICU, a 7 bed step down unit, an outpatient clinic, surgery facilities and a rehab center.

FINDINGS

Based on its analysis Murer Consultants believes The Regional Medical Center at Memphis could support a long term acute care hospital.

Murer Consultants analysis indicated a statistical need for at least 37 long term acute care beds (100% occupancy or 43 at 85% occupancy) based only on the discharges of The Regional Medical Center at Memphis.

THE REGIONAL MEDICAL CENTER AT MEMPHIS

MEMPHIS, TENNESSEE

STATISTICAL PROJECTED BED NEED
LONG TERM ACUTE CARE HOSPITAL

PREPARED BY MURER CONSULTANTS INC.

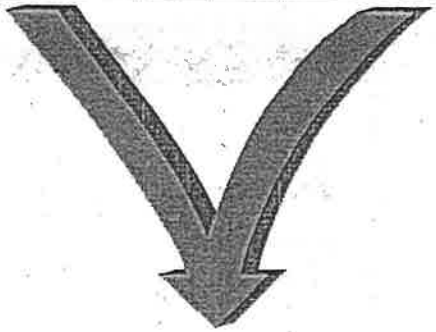
TOTAL # OF PROJECTED BEDS			
	100%	90%	85%
Bed Need	37	41	43

This number is based on statistical need only, and Murer Consultants would not necessarily recommend this exact number of beds. However, Murer Consultants believes The MED could comfortably support the 24 beds it is considering under the available long term acute care hospital CON.

PATIENTS WITH EXTENDED LENGTHS OF STAY

PREPARED BY MURER CONSULTANTS INC.

The Regional Medical Center at Memphis	# of Patients	ALOS
Over 15 Days	875	32.89



TYPICAL # OF DISCHARGES
LONG TERM ACUTE CARE HOSPITAL

25 BED	35 BED	50 BED
200-250 Discharges	335-360 Discharges	400-475 Discharges

Note: Medicare represented 17% (145) of the 875 patients with an ALOS of 32.2 days.

OTHER LONG TERM ACUTE CARE HOSPITALS

In the State of Tennessee there are a total of 9 long term acute care hospitals. Two are in Nashville, one in Chattanooga, one in Bristol, two in Knoxville and three in Memphis.

Murer Consultants identified the three long term acute care hospital in the city of Memphis. These three hospitals have a total of 105 LTACH beds. Based on their average daily census these three facilities have occupancy rates of 73% to 92%.

	# of Beds*	Average Daily Census*	Occupancy Rates	Medicare %
Baptist Memorial Restorative Care Hospital 6019 Walnut Grove Road, Memphis	30 beds	21.9	73%	61%
Methodist Extended Care Hospital 225 South Claybrook, Memphis	36 beds	31.8	88%	89%
Select Specialty Hospital-Memphis *Within Saint Francis Hospital* 5959 Park Avenue, Memphis	39 beds	35.9	92%	64%
TOTAL LTACH BEDS				

It is likely that these LTACH's admit most of their patients from their host hospital. That being said, these higher occupancy rates result in limited LTACH bed availability for The Regional Medical Center's patients who may be appropriate for a long term acute care hospital.

These long term acute care hospitals serve primarily a Medicare population accounting for most of the discharges with the remaining other commercial or managed care.

**As reported on the American Hospital Directory Web Site based on IPPS claims data for federal fiscal year ending 9/30/10.*

LTACH AT THE MED

Based on discussions with The MED it is Murer Consultants' understanding that the LTACH will operate as a "hospital within a hospital" reporting separately to Medicare in its individualized cost report.

This distinction is important. The LTACH, as a hospital within a hospital, is meant to be a self-contained entity meeting hospital standards; although some services can be provided by the host hospital.

HOSPITAL WITHIN HOSPITAL SEPARATENESS REQUIREMENTS

As a separately licensed and certified hospital, the LTACH must follow all State hospital licensure regulations as well as the Medicare Conditions of Participation for Hospitals.

In addition, LTACHs must also meet the following criteria:

- Separate Governing Body
- Separate Chief Medical Officer
- Separate Medical Staff
- Chief Executive Officer

SEPARATE GOVERNING BODY

The hospital has a governing body that is separate from the governing body of the hospital occupying space in the same building or on the same campus.

The hospital's governing body is not under the control of the hospital occupying space in the same building or on the same campus, or of any third entity that controls both hospitals.

Citation: 42 CFR 412.22(e)(1)(i)

SEPARATE CHIEF MEDICAL OFFICER

The hospital has a single chief medical officer who reports directly to the governing body and who is responsible for all medical staff activities of the hospital.

The chief medical officer of the hospital is not employed by or under contract with either the hospital occupying space in the same building or on the same campus or any third entity that controls both hospitals.

Citation: 42 CFR 412.22(e)(1)(ii)

SEPARATE MEDICAL STAFF

The hospital has a medical staff that is separate from the medical staff of the hospital occupying space in the same building or on the same campus.

The hospital's medical staff is directly accountable to the governing body for the quality of medical care provided in the hospital, and adopts and enforces by-laws governing medical staff activities, including criteria and procedures for recommending to the governing body the privileges to be granted to individual practitioners.

Citation: 42 CFR 412.22(e)(1)(iii)

SEPARATE CHIEF EXECUTIVE OFFICER

The hospital has a single chief executive officer through whom all administration authority flows, and who exercises control and surveillance over all administrative activities of the hospital.

The chief executive officer is not employed by , or under contract with, either the hospital occupying space in the same building or on the same campus or any third entity that controls both hospitals.

Citation: 42 CFR 412.22(e)(1)(iv)

VENDED SERVICES AGREEMENTS

Outside of what are required services to be provided by the long term acute care hospital through either State or Federal regulations, services can be purchased from the host hospital through vended services agreements.

This prevents the long term acute care hospital from establishing duplicative and many time costly service lines, and provides for an additional source of revenue for the host hospital.

30

CONCLUSION

CONCLUSION

The concept behind post acute venues of care is placing the patient in the appropriate venue based on medical need and expected length of stay for the proper reimbursement. With the addition of a long term acute care hospital, The Regional Medical Center at Memphis will have available a venue of care designed for the extended stay patient.

A long term acute care hospital is an ideal vehicle to stem losses due to extended lengths of stay and increased patient acuity. As previously noted the long term acute care hospital should reflect the patient diagnostic population of the short term acute in harmony with the mission and philosophy of the health system and its medical staff. Together the long term acute and short term acute hospitals form the continuum of care with appropriate reimbursement reflective of each venue's purpose and anticipated length of stay.

CONCLUSION

The Regional Medical Center at Memphis is one of the State's safety net hospitals. As such it provides care to a significant number of patients with no or little reimbursement source. The MED is committed to providing quality healthcare for individuals with limited or no access to health care due to their financial circumstances.

Murer Consultants believes with the number of acute patients with extended lengths of stay, as well as the identified bed need for at least 37 long term acute care hospitals beds based on 100% occupancy (43 at 85% occupancy), The Regional Medical Center at Memphis could support a long term acute care hospital.

SUPPLEMENTAL- # 1
October 25, 2012
12:00pm

AFFIDAVIT

2012 OCT 25 AM 11:56

STATE OF TENNESSEE
COUNTY OF DAVIDSON

NAME OF FACILITY: Memphis Long Term Care Specialty Hospital (CN1210-052)

I, E. Graham Baker, Jr., after first being duly sworn, state under oath that I am the applicant named in this Certificate of Need application or the lawful agent thereof, that I have reviewed all of the supplemental information submitted herewith, and that it is true, accurate, and complete to the best of my knowledge, information and belief.

E. Graham Baker, Jr. Attorney at Law
Signature/Title

Sworn to and subscribed before me, a Notary Public, this 25th day of October, 2012; witness my hand at office in the County of Davidson, State of Tennessee.

Nadean E. Poteet
NOTARY PUBLIC

NADEAN E. POTEET
STATE OF TENNESSEE NOTARY PUBLIC
DAVIDSON COUNTY

My Commission expires May 6, 2013

STATE OF TENNESSEE
HEALTH SERVICES AND DEVELOPMENT AGENCY
500 Deaderick Street
Suite 850
Nashville, TN 37243
615/741-2364

Date: **November 26, 2012**

To: **HSDA Members**

From: **Melanie M. Hill, Executive Director**

Re: **CONSENT CALENDAR JUSTIFICATION**
CN1210-052 – Memphis Long Term Care Specialty Hospital

As permitted by Statute and further explained by Agency Rule on the last page of this memo, I have placed this application on the consent calendar based upon my determination that the application appears to meet the established criteria for granting a certificate of need. Need, economic feasibility, and contribution to the orderly development of health care are detailed below. If Agency Members determine that the criteria have been met, a member may move to approve the application by adopting the criteria set forth in this justification or develop another motion for approval that addresses each of the three criteria required for approval of a certificate of need.

At the time the application entered the review cycle on November 1, 2012, it was not opposed. If the application is opposed prior to it being heard, it will move to the bottom of the regular December agenda and the applicant will make a full presentation.

Summary—

Memphis Long Term Care Specialty Hospital, LLC holds an approved but unimplemented certificate of need for a twenty-four bed long-term care hospital in Memphis, TN. This type hospital is commonly referred to as long-term acute care hospital (LTACH) and is certified by Medicare as a long-term hospital (LTCH).

These facilities are licensed by the Tennessee Department of Health (TDH) as a hospital with the classification of a chronic disease hospital as defined by Hospital Rule 1200-08-01.

> *Chronic Disease Hospital. To be licensed as a chronic disease hospital, the institution*

shall be devoted exclusively to the diagnosis, treatment or care of persons needing medical, surgical or rehabilitative care for chronic or long-term illness, injury, or infirmity. The diagnosis, treatment or care shall be administered by or performed under the direction of persons currently licensed to practice the healing arts in the State of Tennessee. A chronic disease hospital shall meet the requirements for a general hospital except that obstetrical facilities are not required and, if the hospital provides no surgical services, an emergency department is not required.

Shelby County Health Care Corporation d/b/a the Regional Medical Center of Memphis (The MED) received HSDA approval in September 2012 for a change of control of the unimplemented CON. Since a certificate of need is site specific, an application was filed on October 15, 2012 to relocate the facility to the campus of The MED.

A historical background of the project, which was first approved in 2006, is provided on pages 3 and 4 of the staff summary.

Executive Director Justification -

Need- The need to relocate the approved but unimplemented CON to the new site is justified based upon the Agency's approval for change of control (change of ownership of the facility). The facility will be located on the campus of The MED and will be operated under the "hospital within a hospital" concept.

Economic Feasibility-The project will be funded though the cash reserves of The MED. The total project cost for the CON reflects the fair market value of the land, building, and equipment and not the actual cost to implement the project. The proposed facility will be able to contract or purchase ancillary services from the host hospital (The MED) which will decrease operational costs.

Contribution to the Orderly Development of Health Care- The project does contribute to the orderly development of health care since the HSDA previously determined it was needed in Shelby County, first in 2006 and then again in 2009. Long-term acutely ill patients can be relocated from an acute care bed to a more appropriate level of care that will be reimbursed accordingly. The applicant will participate in the same TennCare MCOs as the MED and will assist The MED in meeting its commitment to the underserved population in Shelby County.

Based on these reasons, I recommend that the Agency approve certificate of need application CN1210-052.

Statutory Citation -TCA 68-11-1608. Review of applications -- Report

(d) The executive director may establish a date of less than sixty (60) days for reports on applications that are to be considered for a consent or emergency calendar established in accordance with agency rule. Any such rule shall provide that, in order to qualify for the consent calendar, an application must not be opposed by any person with legal standing to oppose and the application must appear to meet the established criteria for the issuance of a certificate of need. If opposition is stated in writing prior to the application being formally considered by the agency, it shall be taken off the consent calendar and placed on the next regular agenda, unless waived by the parties.

Rules of the Health Services and Development Agency - 0720-10-.05 CONSENT CALENDAR

(1) Each monthly meeting's agenda will be available for both a consent calendar and a regular calendar.

(2) In order to be placed on the consent calendar, the application must not be opposed by anyone having legal standing to oppose the application, and the executive director must determine that the application appears to meet the established criteria for granting a certificate of need. Public notice of all applications intended to be placed on the consent calendar will be given.

(3) As to all applications which are placed on the consent calendar, the reviewing agency shall file its official report with The Agency within thirty (30) days of the beginning of the applicable review cycle.

(4) If opposition by anyone having legal standing to oppose the application is stated in writing prior to the application being formally considered by The Agency, it will be taken off the consent calendar and placed on the next regular agenda. Any member of The Agency may state opposition to the application being heard on the consent calendar, and if reasonable grounds for such opposition are given, the application will be removed from the consent calendar and placed on the next regular agenda.

(a) For purposes of this rule, the "next regular agenda" means the next regular calendar to be considered at the same monthly meeting.

(5) Any application which remains on the consent calendar will be individually considered and voted upon by The Agency.

HEALTH SERVICES AND DEVELOPMENT AGENCY MEETING
DECEMBER 12, 2012
APPLICATION SUMMARY

NAME OF PROJECT:	Memphis Long Term Care Specialty Hospital
PROJECT NUMBER:	CN1210-052
ADDRESS:	877 Jefferson Avenue Memphis (Shelby County), Tennessee 38103
LEGAL OWNER:	Memphis Long Term Care Specialty Hospital, LLC 877 Jefferson Avenue Memphis (Shelby County), Tennessee 38103
OPERATING ENTITY:	NA
CONTACT PERSON:	E. Graham Baker, Jr. (615) 383-3332
DATE FILED:	October 15, 2012
PROJECT COST:	$8,208,743.21
FINANCING:	Cash Reserves
REASON FOR FILING:	Relocation of an approved but unimplemented Certificate of Need (CN0908-046AE) for a 24-bed long term acute care hospital.

DESCRIPTION:

Memphis Long Term Care Specialty Hospital is requesting Certificate of Need (CON) approval and placement on the CONSENT Calendar for relocation of a previously approved but unimplemented CON (CN0908-046AE) for a twenty-four (24) bed long-term care acute care hospital (LTACH) from the intersection of Kirby Parkway and Kirby Gate Boulevard, Memphis (Shelby County) to an exisiting building on the campus of the Regional Medical Center at Memphis (The MED), 877 Jefferson Avenue, Memphis (Shelby County). The LTACH will be placed on the 4th floor of the Turner Tower and will be a separately licensed hospital from The MED.

SERVICE SPECIFIC CRITERIA AND STANDARD REVIEW:

CHANGE OF SITE

(a) Need- The applicant should show the proposed new site will serve the health care needs in the area to be served at least as well as the original site. The applicant should show that there is some significant legal, financial, or practical need to change the proposed new site.

The applicant states that the new site will be closer to referring facilities which will improve patient care and that some ancillary and support services may be contracted from the closer referring hospitals to hold down capital and operating costs.

It appears that the application will meet this criterion.

(b) Economic Factors-The applicant should show the proposed new site would be at least as economically beneficial to the population to be served as the original site.

The applicant notes that CN0908-046AE included new construction resulting in a total project cost of $7,617,100. Even though the total project cost of the proposed project is $8,208,743.21, the large majority of the cost is the fair market value of the land, building, and equipment that already exists on The MED's campus. Actual cost to implement the project is $1,188,165.

It appears that the application will meet this criterion.

(c) Contribution to the Orderly Development of Health Facilities and/or services.-The applicant should address any potential delays that would be caused by the proposed change of site, and show that any delays are outweighed by the benefit that will be gained from the change of site by the population to be served.

There has been no work done on the existing site. The proposed project will be in an existing building that will be built out under CN1208-037A, which was approved in November 2012. No significant delays are expected. The LTACH is expected to begin operation in April 2015.

It appears that the application will meet this criterion.

SUMMARY:

The history of Memphis Long Term Care Specialty Hospital is as follows:

March 2006

- AmeriCare Health Properties, LLC initially filed a CON application (CN0603-019) for the establishment of Memphis Long Term Care Specialty Hospital, a twenty-four (24) bed long term acute care hospital in an exisiting 237 bed nursing home (Americare Health Center of Memphis, LLC), 3391 Old Getwell Road, Memphis (Shelby County).

July 2006

- CN0603-019 was approved with an expiration date of September 1, 2009.

March 2007

- A request for corporate restructuring was granted for CN0603-019A

March 2008

- A four month extension of the expiration date was approved from September 1, 2009 to January 1, 2010 for CN0603-019A.

November 2009

- The Agency approved CN0908-046A, the relocation of Memphis Long Term Care Specialty Hospital from 3391 Getwell Road, Memphis (Shelby County) to the intersection of Kirby Parkway and Kirby Gate Boulevard, Memphis (Shelby County) with an expiration date of January 1, 2013. In addition the applicant requested and received approval for a twelve month extension for CN0603-019A from January 1, 2010 to January 1, 2011. The applicant believed that the LTACH was close to completion on the Getwell Road campus and planned to operate the LTACH at this site until the facility at the new location was completed and ready to be occupied.

September 2012

- Two month extension approved for CN0908-046A from January 1, 2013 to March 1, 2013, and a change of control was granted for Shelby County Health Care Corporation d/b/a the Regional Medical Center at Memphis ("The MED") to acquire all of the issued and outstanding equity in Memphis Long Term Care Specialty Hospital. The purpose of the two

month extension request was to allow time for The MED to file a CON to relocate Memphis Long Term Care Specialty Hospital.

October 2012

- Memphis Long Term Care Specialty Hospital, LLC, which is wholly owned by The MED, filed this proposed project to relocate Memphis Long Term Care Specialty Hospital from the intersection of Kirby Parkway and Kirby Gate Road to the Turner Tower on The MED's campus.

The MED is a 631 bed acute care hospital which is the area's Level I Trauma Center and has the region's only inpatient burn unit. The proposed location of the LTACH is the 4th floor of the Turner Tower, a 20 year old building which is the focus of a recently approved application, CN1208-037A, which included the building out of the shelled 4th floor of the Turner Tower.

The LTACH will be the sole occupant of the 21,340 gross square foot 4th Floor in the Turner Tower. The LTACH will be separately licensed and legally separate from The MED. The LTACH will be operated as a "hospital within a hospital", leasing space from The MED, the "host" hospital. The LTACH will include 24 private patient rooms, 5 nurses' stations, family waiting room, reception area, separated soiled/clean utilities, office space, and staff lounge areas. Due to the medical conditions of the patients there will not be a central dining area.

The following is an excerpt from the CN1210-052, the proposed project, where the applicant describes the type of patient for which an LTACH provides care:

Long term acute care hospitals (LTACHs) care for catastrophically ill patients who have been stabilized in more critical-care settings but are too ill for discharge to an acute rehabilitation, skilled nursing, or home care setting. These medically fragile or unstable patients typically require extended acute care for periods of weeks. Their average length of stay ("ALOS") is 25 days or greater, and meeting their needs can strain hospitals' resources and budgets, but often there is no alternative facility that can provide the care these patients require.

Their conditions include chronic respiratory disorders and other pulmonary conditions; cardiac, neurological, and renal conditions; infections and severe wounds. Many are medically complex, with a combination of issues that often require cardiac monitoring, long term antibiotic and nutritional therapies, pain control, and continued life support. LTACH programs of care are designed for patients with serious conditions such as multiple nervous system disorders, cardiovascular disorders, extended antibiotic therapy, patients with tracheotomies, ventilators, dialysis, TPN, burn care, oncological conditions, and numerous other post-surgical and complex medical

conditions. These patients require more nursing hours per patient day (5-8 hours) than non-acute facilities can provide; and they cannot withstand the rehabilitation regimens of a hospital rehabilitation unit. LTACHs are specifically designed to meet the needs of such long-stay, critically ill patients.

The applicant discusses the following advantages provided by the LTACH project:

1. LTACHS Reduce The Expense of Long Term Acute Care for All Payors- LTACHs offer an extended stay in an acute care environment which does not carry expensive diagnostic and support space overhead typically found in a general acute care hospital.
2. LTACHs Maximize Medicare Reimbursement for Tennessee and Reduce Cost-Shifting-Major un-reimbursed costs for extended care Medicare patients in general acute care hospitals shifts these costs to other payors. CMS is willing to provide reimbursement for services to these patients in an appropriate facility such as an LTACH
3. The Applicant's LTACH will be an Accessible Provider for a Wide Range of Payors- The applicant anticipates a payor mix of 50% Medicare and 50% Medicaid.
4. Due to Owner's Relationship with The MED, Payor Contracts should be Easily Implemented
5. The Applicant will Serve patients who are Currently Underserved
6. Project Costs for this Application are Comparable to other Hospital Projects
7. The proposed project will place the LTACH closer to referring tertiary hospitals including being on The MED's campus
8. The cost of building out the 4th floor of the Turner Tower has already been approved in a recently approved CON application, CN1208-037A.
9. The space in the Turner Tower is already available to the proposed project so that the LTACH can come on line much more quickly and begin serving patients who need services.

In the supplemental response the applicant discussed two issues that had to do with CMS rules:

1. The applicant acknowledges CMS's "50% rule" which apples to the percentage of patients being transferred from the "host hospital", in this case The MED, to the "hospital within a hospital" in this case Memphis Long Term Care Specialty Hospital. The applicant notes that the patients referred from the host hospital in excess of 50% just means that LTACH

reimbursement will be less for those patients but still greater than the reimbursement for the same patient in a short stay hospital which in this case would be The MED

2. CMS established a 3 year moratorium on the designation of new LTACHs, LTACH satellites, or increases in beds in exisiting LTACHs which began on December 29, 2007 scheduled to end on December 28, 2010 and then extended two more years until December 28, 2012. This moratorium did not impact the proposed project since this 24-bed facility initially received CON approval in 2006 prior to the implementation of the moratorium.

The MED which owns Memphis Long Term Care Specialty Hospital and is the "host" hospital for the LTACH is a 631 licensed bed acute care hospital. The Joint Annual Report for 2011 indicates The MED staffed 325 beds of its licensed 631 beds, for 39.4%% licensed bed occupancy and 76.5% staffed bed occupancy.

The following provides the Department of Health's definition of the two bed categories pertaining to occupancy information provided in the Joint Annual Reports:

Licensed Beds - The maximum number of beds authorized by the appropriate state licensing (certifying) agency or regulated by a federal agency. This figure is broken down into adult and pediatric beds and licensed bassinets (neonatal intensive or intermediate care bassinets).

Staffed Beds - The total number of adult and pediatric beds set up, staffed and in use at the end of the reporting period. This number should be less than or equal to the number of licensed beds.

According to the demographic statistics from the Department of Health, the applicant's declared service area of Shelby County's total population is projected to grow by 2.8% between 2012 and 2016 from 949,665 to 976,726. The State of Tennessee is projected to increase 3.4% over the same time period. Persons Age 65+ are projected over the same period to increase 13.9%, from 100,017 in 2012 to 113,906 in 2016. This compares to 12.4% for Tennessee overall. Persons Age 65+ account for 10.5% of the total population in the service area. This compares to 13.8% for Tennessee. TennCare enrollees account for 24.1% of the population in the service area. This compares to 19% for the State of Tennessee.

The following tables will illustrate the historical utilization trends of existing LTACHs in Shelby County:

Shelby County LTACH Utilization Trends, 2009-2011

LTACH	2012 Lic.'d Beds	2009 Patient Days	2010 Patient Days	2011 Patient Days	'09-'11 % Change	2009 % Occ.	2010 % Occ.	2011 % Occ.
Baptist	30	9,331	8,015	8,004	-14.2%	85.2%	73.2%	73.1%
Methodist	36	11,757	11,379	11,337	-3.6%	89.5%	86.6%	86.3%
Select Specialty	39	13,473	12,680	13,469	0.0%	94.6%	89.1%	94.6%
TOTAL	**105**	**34,561**	**32,074**	**32,810**	-5.1%	90.2%	83.7%	85.6%

Source: Hospital Joint Annual Reports, 209-2011,

The table above illustrates that LTACH utilization in Shelby County has declined over 5% between 2009 and 2011. The range of change was a decline of 14.2% at Baptist Restorative Care to no change at Select Specialty. Overall Shelby County LTACH occupancy in 2011 ranged between 73.1% at Baptist Restorative Care to 94.6% at Select Specialty. There are currently 105 LTACH licensed beds operating in Shelby County plus the applicant's approved but unimplemented 24 beds.

In a supplemental request for information the applicant was asked about the alternative of transferring patients to exisiting LTACHs in the service area. The applicant noted bed availability at other service area LTACHs but indicated that MED physicians and patients want to stay at The MED.

The applicant's projects that the proposed 24 bed LTACH will operate at 95% occupancy in each of the first two years of operation. To support these projections the applicant points to a study performed by a consultant that indicated the applicant could support a 43 bed LTAC operating at 85% occupancy.

Per the Projected Data Chart, gross operating revenue for the 24 bed LTACH is $28,143,153 *($3,381.78 per patient per day)* in the first year of the project), increasing to $28,874,875 *($3,469.70 per patient per day)* in the second year of the project. In the initial year of the project, the applicant expects to realize favorable net operating income of $874,109, improving to $893,564 during the second year of operations. The applicant's gross operating margin is projected to be 3.1% in both Years 1 and 2.

The applicant projects a patient payor mix based on net revenue of 50% Medicare and 50% Medicaid. The applicant expects to contract with the TennCare MCOs with which The MED currently contracts: UnitedHealthcare Community Plan, BlueCare, and TennCare Select.

There is no Historical Data Chart for the 24 bed LTACH since it is an approved but unimplemented project.

The proposed staffing pattern for the 24 bed LTACH is displayed in the table below:

Position	FTEs
Administrator	1.0
Receptionist	1.0
Director of Nursing	1.0
RNs	33.0
CNAs	22.0
Nurse Practitioner	2.0
TOTAL	**60.0**

The total project cost is $8,208,743.21, the largest portion of which is the fair market value of the exisiting property, $5,772,000 (70.3% of total project cost), followed by Equipment lease and purchase at $1,230,150 (19.2% of the total project cost). The remaining costs are comprised of Construction ($438,165); Purchase of LTACH ($350,000); Legal, Administrative and Consultant fees ($50,000), and CON filing fees ($18,428.21).

The project will be financed by cash reserves of the applicant's owner, The MED. A letter dated October 15, 2012 from the Senior Executive Vice President & CFO of The MED indicates that there are cash reserves available and dedicated to the project.

The audited financial statements of Shelby County Health Care Corporation dated June 30, 2011 indicate the availability of $46,817,462 in cash and cash equivalents. A review of these financial statements revealed a favorable current ratio of 4.66 to 1. Current ratio is a measure of liquidity and is the ratio of current assets to current liabilities, which measures the ability of an entity to cover its current liabilities with its existing current assets. A ratio of 4.66:1 would mean that the applicant has over four times the current assets needed to cover its current liabilities. A ratio of 1:1 would be required to have the minimum amount of assets needed to cover current liabilities.

The applicant has submitted the required corporate and property documentation, a graduate medical education agreement, and federal LTACH regulations. Staff will have a copy of these documents available for member reference at the Agency meeting. Copies are also available for review at the Health Services and Development Agency office.

Should the Agency vote to approve this project, the CON would expire in three years.

CERTIFICATE OF NEED INFORMATION FOR THE APPLICANT

There are no other Letters of Intent, pending applications, or denied applications for this applicant.

Outstanding Certificates of Need

Shelby County Health Care Corporation d/b/a Regional Medical Center at Memphis, CN1208-037A, has an outstanding Certificate of Need which will expire on January 1, 2016. The CON was approved at the November 14, 2012 Agency meeting for: a) The conversion of ten (10) medical/surgical beds to rehabilitation beds; b) the relocation of its exisiting twenty (20) bed rehabilitation unit, after which a thirty (30) bed rehabilitation unit will operate in the Turner Tower; c) the addition of three (3) operating rooms to be dedicated to outpatient surgery operated in the Turner Tower; d) the general renovation of the Turner Tower, including the build out of unused space for a twenty-four (24) bed unit ; e) the relocation of an existing ten (10) bed medical/surgical unit to the Turner Tower, which will result in six (6) staffed medical/surgical beds.. The estimated project cost is **$28,400,000.00.** *Project Status: This project was recently approved.*

Memphis Long Term Care Specialty Hospital, CN0908-046AE, has an outstanding Certificate of Need that will expire on March 1, 2013. The CON was approved at the November 2009 Agency meeting for the relocation of an approved but unimplemented CON (CN0603-019A) from 3391 Getwell Road, Memphis (Shelby County) to the intersection of Kirby Parkway and Kirby Gate Boulevard, Memphis (Shelby County). Estimated project cost is **$750,000.00.** *Project Status: The Agency approved change of control at its September 2012 meeting so that The MED could acquire all of the issued and outstanding equity in Memphis Long Term Care Specialty Hospital, LLC. If CN1210-052 is approved, CN0908-046AE will be surrendered.*

CERTIFICATE OF NEED INFORMATION FOR OTHER SERVICE AREA FACILITIES:

There are no Letters of Intent, denied or pending applications or outstanding Certificates of Need for other health care organizations in the service area proposing this type of service.

PLEASE REFER TO THE REPORT BY THE DEPARTMENT OF HEALTH, DIVISION OF HEALTH STATISTICS, FOR A DETAILED ANALYSIS OF THE STATUTORY CRITERIA OF NEED, ECONOMIC FEASIBILITY, AND CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTH CARE IN THE AREA FOR THIS PROJECT. THAT REPORT IS ATTACHED TO THIS SUMMARY IMMEDIATELY FOLLOWING THE COLOR DIVIDER PAGE.

MAF
11/26/2012

LETTER OF INTENT

2012 OCT 10 AM 10:59

LETTER OF INTENT
TENNESSEE HEALTH SERVICES AND DEVELOPMENT AGENCY

The Publication of Intent is to be published in the *Commercial Appeal* which is a newspaper of general
(Name of Newspaper)

circulation in Shelby and surrounding Counties, Tennessee on or before October 10, 2012 for one day.
(County) (Month / day) (Year)

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This is to provide official notice to the Health Services and Development Agency and all interested parties, in accordance with T.C.A. §68-11-1601, et seq., and the Rules of the Health Services and Development Agency, that Memphis Long Term Care Specialty Hospital, 877 Jefferson Avenue, Memphis (Shelby County), Tennessee 38103 ("Applicant"), owned and managed by Memphis Long Term Care Specialty Hospital, LLC, same address, ("Owner"), which is in turn owned by Shelby County Health Care Corporation, d/b/a, The Regional Medical Center at Memphis, 877 Jefferson Avenue, Memphis (Shelby County), Tennessee 38103 ("The "Med"), is applying for a Certificate of Need for the relocation of CN0908-046AE, a twenty-four (24) bed long term acute care hospital ("LTACH"), from its approved site at the intersection of Kirby Parkway and Kirby Gate Boulevard to the main campus of The Med. This LTACH will be located on the 4th floor of the Turner Tower, and will be a separately-licensed hospital. There are no new licensed beds (as this is a relocation of existing and approved beds) and no major medical equipment is involved with this project. The number of total licensed beds for the Applicant and The Med will not change. No other health services will be initiated or discontinued. It is proposed that Medicare, TennCare (Medicaid), commercially insured, and private-pay patients will be served by the Applicant, which will be licensed by the Tennessee Department of Health. The estimated project cost is anticipated to be approximately $8,208,743.21, including filing fee.

The anticipated date of filing the application is: October 15, 2012.

The contact person for this project is E. Graham Baker, Jr., (Contact Name) Attorney (Title)

who may be reached at: his office located at (Company Name) 2021 Richard Jones Road, Suite 350 (Address)

Nashville (City) TN (State) 37215 (Zip Code) 615 / 370-3380 (Area Code / Phone Number)

E. Graham Baker, Jr. (Signature) October 10, 2012 (Date) graham@grahambaker.net (E-mail Address)

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The Letter of Intent must be filed in triplicate and received between the first and the tenth day of the month. If the last day for filing is a Saturday, Sunday or State Holiday, filing must occur on the preceding business day. File this form at the following address:

Health Services and Development Agency
Andrew Jackson Building
500 Deaderick Street, Suite 850
Nashville, Tennessee 37243

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The published Letter of Intent must contain the following statement pursuant to T.C.A. § 68-11-1607(c)(1). (A) Any health care institution wishing to oppose a Certificate of Need application must file a written notice with the Health Services and Development Agency no later than fifteen (15) days before the regularly scheduled Health Services and Development Agency meeting at which the application is originally scheduled; and (B) Any other person wishing to oppose the application must file written objection with the Health Services and Development Agency at or prior to the consideration of the application by the Agency.

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* The project description must address the following factors:

1. General project description, including services to be provided or affected.
2. Location of facility: street address, and city/town.
3. Total number of beds affected, licensure proposed for such beds, and intended uses.
4. Major medical equipment involved.
5. Health services initiated or discontinued.
6. Estimated project costs.
7. For home health agencies, list all counties in proposed/licensed service area.

CERTIFICATE OF NEED
REVIEWED BY THE DEPARTMENT OF HEALTH
DIVISION OF HEALTH STATISTICS
615-741-1954

2012 NOV 26 PM 3:57

DATE: November 30, 2012

APPLICANT: Memphis Long Term Care Specialty Hospital
877 Jefferson Avenue
Memphis, Tennessee 38103

CONTACT PERSON: E. Graham Baker, Jr. Esquire
7000 Executive Center Drive, Suite 207
Brentwood, Tennessee 37027

COST: $8,208,743

In accordance with Section 68-11-1608(a) of the Tennessee Health Services and Planning Act of 2002, the Tennessee Department of Health, Division of Health Statistics, reviewed this certificate of need application for financial impact, TennCare participation, compliance with *Tennessee's Health: Guidelines for Growth, 2000 Edition*, and verified certain data. Additional clarification or comment relative to the application is provided, as applicable, under the heading "Note to Agency Members."

SUMMARY:
The applicant, Memphis Long Term Care Specialty Hospital, owned by Shelby County Health Care Corporation, d/b/a, The Regional Medical Health Center at Memphis ("The MED"), seeks to relocate CON 0908-046AE, a twenty-four (24) bed long term acute care hospital ("LTACH") from its' approved site at the intersection of Kirby Parkway and Kirby Gate Boulevard to the main campus of The Med. The LTACH will be located on the 4th floor of Turner Tower, and it will be a separately-licensed hospital. There are no new licensed beds as this is merely as relocation of an existing and previously approved CON. It is proposed that TennCare, Medicare, commercially insured, and private-pay patients will be served by the applicant, which is licensed by the Tennessee Department of Health. The estimated project cost is $8,208,743 (including the filing fee).

The LTACH will be sole occupant of the 4th Floor at Turner Tower. It will be separately licensed and legally separate from The MED, but will operate as a "hospital within a hospital".

There are three existing LTACHs in Memphis. They are as follows:
1. Baptist Memorial Restorative Care Hospital
2. Methodist Extended Care Hospital, Inc
3. Select Specialty Hospital- Memphis

The applicant does not speculate on utilization rates at these facilities and has no theories on their respective occupancies. However, the relocation of the applicant to The MED is expected to improve patient's access to their physicians, free up short term acute care beds in The MED and contribute overall to the financial success of The MED.

If approved, the applicant will be the second LTACH located in downtown Memphis.

GENERAL CRITERIA FOR CERTIFICATE OF NEED

The applicant responded to all of the general criteria for Certificate of Need as set forth in the document *Tennessee's Health: Guidelines for Growth, 2000 Edition.*

NEED:

The following chart illustrates the 2013 and 2017 population projections for the applicant's service area.

Service Area Total Population Projections for 2013 and 2017

County	2013 Population	2017 Population	% Increase/ (Decrease)
Shelby	956,126	983,283	2.8%

Source: *Tennessee Population Projections 2000-2020, February 2008 Revision,* Tennessee Department of Health, Division of Health Statistics

2010 Service Area Hospital Total Licensed and Staffed Bed Occupancy

Facility	Licensed Beds	Patient Days	Licensed Occupancy
Baptist Memorial Hospital	706	170,084	66.0%
Methodist Hospital-Germantown	309	68,707	60.9%
Regional Medical Center	661	94,450	41.0%
Saint Jude Children's Hospital	78	15,721	55.2%
Methodist Hospital-South	156	31,643	55.6%
Methodist Healthcare-Memphis	617	125,892	55.9%
Methodist Hospital-North	246	57,534	64.1%
LeBonheur Children's Hospital	255	55,767	59.9%
Baptist Memorial Hospital-Collierville	81	10,454	35.4%
Delta Medical Center	243	34,384	38.8%
Saint Francis Hospital	519	92,657	48.9%
Baptist Memorial Hospital for Women	140	26,115	51.1%
Saint Francis-Bartlett	100	27,247	74.6%
HealthSouth Rehabilitation Hospital	80	19,879	68.1%
Baptist Rehabilitation-Germantown	68	24,820	41.5%
Baptist Memorial Restorative Care	30	8,015	73.2%
Select Specialty Hospital	39	12,680	89.1%
Methodist Extended Care Hospital	36	11,379	86.6%
HealthSouth Rehabilitation-North	40	13,119	89.9%

Source: *Joint Annual Report of Hospitals 2010,* Division of Health Statistics, Tennessee Department of Health

The applicant, The Med, holds an approved Certificate of Need (CN0908-046AE), from September 2012, for a free-standing, 24 bed LTACH that the previous owner was unable to implement. This CON seeks approval for relocation of these beds to the The Med, 4th Floor Tower, so there is no issue of need to be addressed in this section.

TENNCARE/MEDICARE ACCESS:

The following chart illustrates the TennCare enrollees in the applicant's service area.

TennCare Enrollees in the Proposed Service Area

County	2012 Population	TennCare Enrollees	% of Total Population
Shelby	956,126	229,068	24.0%

Source: *Tennessee Population Projections 2000-2020,* February 2008 Revision Tennessee Department of Health, Division of Health Statistics and *Tennessee TennCare Management Information System, Recipient Enrollment,* Bureau of TennCare,

The MED has TennCare contracts with UHC/Americhoice, Blue Care, and TNCare Select. It is anticipated that the applicant will contract with these same MCOs as well as those that provide services in the area.

ECONOMIC FACTORS/FINANCIAL FEASIBILITY:

The previously approved CN0908-046AE was approved at an estimated project cost of $7,617,100. This project can be implemented at a much lower cost since the land, building, and equipment already exists on the MED's campus where the LTACH will be located. The only additional construction/equipment that will be needed will be a dialysis "box" installation in each room for mobile dialysis and a med-gas headwall system. The actual cost to implement the project will be $1,206,593 (including filing fee).

There are several advantages that will be provided by this LTACH project and they include the following:

1. Reduce the expense of long term acute care for all payors
2. Maximizes Medicare reimbursement for Tennessee and reduces cost-shifting
3. The LTACH will be an accessible provider for a wide range of payors
4. Payor contracts will be easily implemented because of the relationship with The MED
5. Underserved populations will be served
6. Project costs for this application are comparable with other hospital projects

The applicant states that The MED has sufficient cash reserves to fund this project, and substantiation of sufficient resources and that commitment are included in this application. The applicant states that there is no issue regarding economic feasibility for this project.

CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTHCARE:

The applicant indicates on Page 17 of Supplemental #1 why The MED decided to acquire an existing CON rather than try to establish a new facility with new beds. Their response also addresses the LTACH moratorium as well as the 25% rule regarding admissions from host hospitals.

Applications for Change of Site

When considering a certificate of need application, which is limited to a request for a change of site for a proposed new health care institution, the Commission may consider, in addition to the foregoing factors, the following factors:

(a) Need. The applicant should show the proposed new site would serve the health care needs in the area to be served at least as well as the original site. The applicant should show that there is some significant legal, financial, or practical need to change the proposed new site.

The applicant, in Supplement #1, outlines how the proposed site at The MED will serve the health care needs in the area by having patients in closer proximity to their physicians, free up short term acute care beds and contribute further to the financial success of The MED.

(b) Economic factors. The applicant should show that the proposed new site would be at least as economically beneficial to the population to be served as the original site.

The applicant outlined how the proposed relocation would be economically beneficial to the population being served in downtown Memphis.

(c) Contribution to the orderly development of health care facilities and/or services. The applicant should address any potential delays that would be caused by the proposed change of site, and show that any such delays are outweighed by the benefit that will be gained from the change of site by the population to be served.

The applicant indicates that both the cost and implementation time frame are reduced due to the "hospital operating within a hospital" scenario outlined in this application.

SPECIFIC CRITERIA FOR CERTIFICATE OF NEED

The applicant responded to all relevant specific criteria for Certificate of Need as set forth in the document *Tennessee's Health: Guidelines for Growth, 2000 Edition.*

CONSTRUCTION, RENOVATION, EXPANSION, AND REPLACEMENT OF HEALTH CARE INSTITUTIONS

1. Any project that includes the addition of beds, services, or medical equipment will be reviewed under the standards for those specific activities.

The project does not include the addition of beds or services because it is a relocation of a previously approved CON. It does however include the purchase of dialysis "boxes" for each patient room.

2. For relocation or replacement of an existing licensed health care institution:

   a. The applicant should provide plans which include costs for both renovation and relocation, demonstrating the strengths and weaknesses of each alternative.

   The applicant includes in Supplement #1 a comparison of expenditures and demonstrates the strengths of the outlined relocation of services to The MED.

   b. The applicant should demonstrate that there is an acceptable existing or projected future demand for the proposed project.

   The application is for a relocation of a previously approved CON.

3. For renovation or expansions of an existing licensed health care institution:

   a. The applicant should demonstrate that there is an acceptable existing demand for the proposed project.

   The application is for a relocation of a previously approved CON.

   b. The applicant should demonstrate that the existing physical plant's condition warrants major renovation or expansion.

   The application is for a relocation of a previously approved CON.